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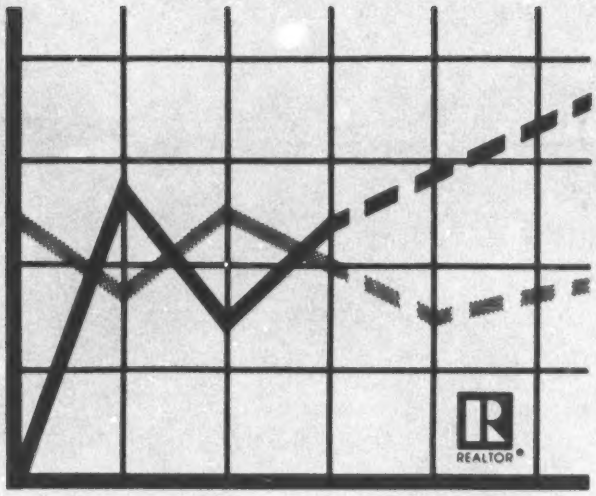
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Overview

Stagnation of the entire economy is continuing, but housing is beginning to lead the economy to an expected modest Spring recovery. The recovery during 1983 and 1984 should be one-half the rate of the average recovery experienced during the last 35 years. In addition to improvement in housing, moderate improvement in consumption spending and investment in business equipment will help raise real growth to about 2% in 1983. By 1984, stronger investment in structures and consumer durable spending will help accelerate the recovery to about 3%. Employment should improve by Spring and unemployment should decline slowly thereafter. Because business is cutting costs, including layoffs and lower inventories, profit margins can be expected to improve through 1983.

The recovery could be normal--twice the forecast pace--if it were not for record deficits forecast for 1983 and 1984 of about $200 billion each year. Such large deficits will siphon all of the $170 billion in personal savings in the U.S. plus savings from business and loanable funds from abroad. This will cause long-term interest rates (adjusted for inflation) to remain at current record levels until government policy is improved. The situation would be even worse if the Federal Reserve Board had not exceeded their own targets and allowed money and credit to grow more appropriately for conditions during the last six months.

The President and the Congress are ignoring the commitment made in the Budget Resolutions to limit spending to $770 billion and the deficit to $104 billion. Federal elected officials are following the same fiscally irresponsible tax cuts and spending increases in 1981 and 1982 when spending was overrun by $33 billion, creating a then all-time record deficit of $111 billion.

Government-caused high longer-term interest rates are not only choking off the domestic market, but also the foreign trade market. High U.S. interest rates attract substantial capital inflows into the U.S. from overseas, which in turn causes the U.S. dollar to increase in value on foreign exchange markets. This, unfortunately, makes American exports more costly to foreigners and foreign sales decline. At the same time, foreign goods become cheaper in the U.S. with an over-valued dollar and Americans buy more foreign goods, which reduces U.S. jobs and leads to naive demands for artificial barriers or costs to importation of imports which will in turn destroy more jobs in the entire economy than are retained in the protected industries. Only lower deficits and long-term interest rates can satisfactorily solve this problem and help the recovery.

Consumer Spending

The expected revival in consumer spending has yet to materialize, even during the traditionally heavy Christmas buying season. Retailers are becoming concerned that the stagnant economy and unemployment are driving down consumer confidence and keeping spending low and savings high.

Much of the gloominess of the retailers was justified by the latest survey of consumer attitudes by the Conference Board. The survey indicates that consumer confidence about the next six months is becoming increasingly pessimistic. Consumers are likely to defer purchases of some big ticket items when they are uncertain of their future employment and income. For example, increased economic uncertainty caused most of the tax cut in July 1981 to be saved rather than spent on consumer goods.

Slow growth of people's incomes is also limiting any expansion of consumer spending. Disposable personal income increased $15.8 billion in October, partly because of a large increase from unemployment insurance benefits. Private wages and salaries, however, declined $1.8 billion in October and manufacturing payrolls declined $4.4 billion.

Nonetheless, spending is increasing for housing and autos--where there is an obvious pent-up demand after three years of below-normal sales. Retail sales have increased modestly, 0.6% above the previous month in both September and October, because of automotive sales, bolstered by discounts.

Interest rates may trend downward after seasonal increases in the Winter and lead to greater consumer confidence and willingness to add to installment loans for durable goods in the second half of next year. Consumer spending can be expected to accelerate during late 1983, reinforced by the next round of personal tax cuts scheduled for July. This stronger performance from the consumer goods sector--particularly for autos--is expected to continue into 1984 and should reinforce the anticipated upturn in investment.

Nonresidential Investment

Business investment in equipment should grow in the second half of 1983 and investment in structures should begin to recover during 1984. Industrial production declined in October by 0.8% primarily due to declines in the production of motor vehicles and business equipment. At 136.3, the industrial production index was 11.4% below its recent peak in July 1981, and has declined in 13 of the last 15 months. New orders for manufacturers durable goods also declined $3.6 billion or 4.9% in October and was the largest one-month decline since the previous October.

With demand remaining at such low levels almost continuously since the spring of 1981, capacity utilization has declined to a new low. Capacity utilization for manufacturing fell to 68.4% in October, slightly under the previous low of 69.0% which occurred in March of 1975.

With so much excess capacity, business investment will be slow to respond to a recovery. After adjusting for inflation, new equipment investment is expected to remain stagnant during 1983, but to increase 7% during 1984. The slow pace of investment during the next recovery in spite of the business tax cuts of 1981-82 reflects the dampening effect of high long-term interest rates.

Until the new office space created during 1981 and 1982 is assimilated and until capacity utilization increases significantly, it is understandable that investment in new structures will likely decline by 9% in 1983. By 1984, however, investment in new structures should again be increasing, although growth rates of only 2%--well below normal recovery levels--are anticipated.

Inflation

The big reduction in inflation continues to be good news. Consumer prices rose just 0.3% in October and have averaged just a 3.8% annual inflation rate over the past three months. The reduced inflation is widespread, including food, housing, apparel and transportation.

With declining mortgage rates holding down housing costs, consumer prices are expected to increase 6% for the next two years, in sharp contrast to double-digit rates in recent years. Some modest acceleration can be expected as the economic recovery accelerates.

Unemployment

The unemployment rate--which traditionally lags behind growth of overall economic activity--continued to increase in November, reaching a post-war record 10.8%, 12 million people unemployed as compared to 12.8 million at the bottom of the Great Depression of 1933. While employment can be expected to grow during the first half of 1983, the unemployment rate may not fall below 10% until early 1984.

Fiscal Policy

There is little indication that Congress will soon overcome its paralysis and reduce federal deficits over the next three years. Indeed, the limited progress achieved in mid-1982 is rapidly being eroded.

The November election highlighted the public's concern with unemployment and strengthened the Democratic party in both the U.S. House of Representatives and State governorship and legislatures. Also, returning Republicans have been sensitized about unemployment.

Therefore, it should not be surprising that both Republicans and Democrats are sponsoring pork barrel spending for jobs. Even public works projects proposed to be financed by a five cent gasoline tax are advocated to be job-creating. Actually, such hikes in combination, excess taxes and spending, will probably reduce total employment by taking consumer spending and related jobs away to spend for less labor-intensive public works.

The Administration, before being pursuaded that it could not pass Congress, also wanted to propose accelerating the tax cuts to stimulate the economy and create jobs. This also would have adverse impact on the deficit. To reduce the deficit, the Administration is proposing more reduction in domestic spending with only minimal cuts in defense and no more tax increases. The Administration has been warned that this strategy will face strong opposition in the new Congress, which will be more sensitive to cutting social programs.

The discouraging fact in all of this is that these proposals either do not address the issue of the deficit or are not expected to have much support in Congress. Indeed, the Majority leader of the Senate has stated recently that he expects that Congress will probably not make significant spending reductions in defense or domestic programs and that the deficits could reach

$200 billion annually if the Federal Reserve does not force interest rates down. With the Federal Reserve reiterating its position that it will not finance growing deficits by easing credit growth constraints, a $200 billion deficit this fiscal year increases the likelihood of a further round of interest rate hikes early in 1983. Unless Congress acts quickly to trim spending, only limited progress is expected in lowering deficits--and easing pressures on long-term interest rates--during FY1984 and beyond.

Monetary Policy and Interest Rates

The Federal Reserve Board since summer has been trying to encourage lower interest rates by allowing money growth in excess of its target ranges. By November, the narrowly defined money measure--M1--was averaging 9% growth, well above the 1982-83 target range of 2.5-5.5%. The Fed also lowered the discount rate--a key short-term interest rate--to encourage lower interest rates in general. With no economic growth during the third quarter producing reduced private credit demands, both long and short-term rates tumbled. For example, mortgage rates have fallen to under 14% compared with 18% earlier in 1982, while the federal funds rate--another key short-term rate--has fallen from over 20% to under 9% in early December.

Despite these recent declines, there is still plenty of room for further falls in long-term rates. Last year, mortgage rates averaged 16.5% while long-term inflation was about 10%. This left the real (inflation adjusted) rate at around 7%. Currently, mortgage rates are just under 14%. With long-term inflation around 7%, real interest rates remain well above the 2-3% average over the post-war period.

Unfortunately, the prospect of federal deficits rising to over $200 billion in 1983 will not only prevent rates from falling further, but should force rates back up again in 1983.

There are also indications that the Fed may be unwilling to permit any further relaxation of its tight monetary policies to accomodate these rising deficits. In a statement before the Joint Economic Committee of Congress on November 24, Paul Volcker, Chairman of the Federal Reserve Board, warned that "[t]he problems flowing from future [federal] deficits are simply not amenable to solution by monetary policy... [and] we do not believe that progress toward lower interest rates should--or for long in practice can--be 'forced' at the expense of excessive credit and money creation."

The Fed will be resistant to suggestions such as those that have been recently made by certain Senators that they allow faster money growth solely to reduce interest rates in the absence of any progress on reducing the deficit. Indeed, the Federal Reserve will probably keep the pressure on the Administration and Congress to lower deficit spending by not accomodating them through easier policies.

Expectations of this renewed confrontation between fiscal and monetary policy will soon start to show in interest rates through high risk premiums even in the absence of credit tightening by the Federal Reserve. This will probably begin during the first half of 1983. Interest rates will not, however, rise to previous highs as the economy remains weak and private credit demands will quickly subside in the face of increasing interest rates.

The federal funds rate is forecast to bottom by late December or early January and have a fourth quarter average of 9.7%, rising to over 12% in the first quarter and peak by the early part of the second quarter. The continued slow growth in economic activity and a modestly improved outlook for federal deficits after 1984 should then place renewed downward pressure on interest rates, with the federal funds rate falling to around 11% in 1984. Other interest rates will exhibit a similar pattern with the 3-month T-bill rate averaging 8.04% in the fourth quarter of this year, 12.5% in the first quarter of 1983 and 13% in the second quarter. The high grade corporate bond rate is expected to move from 12.7% to 13.5% in the first three months of next year and 12% in the second quarter of 1983. The bond rate should fall further to around 11% in 1984.

Residential Mortgage Markets

The rapid increase in housing activity is apparently being accomodated in a slightly different manner than it has traditionally by the residential mortgage market. As mortgage rates have declined, there has been new mortgage loan demand to finance home sales, both existing and new; and also a flood of demand for refinancing. However, this demand is not being met primarily by thrift institutions and banks. The secondary market institutions and mortgage bankers are now playing a far more significant role in mortgage lending. The primary reason for this is the persistent problems the depository institutions are having attracting loanable funds. Total deposits declined at insured Savings and Loan Associations for the first time since last April by declining $913 million. Net new deposits have not shown a gain since last February and declined by $3.45 billion during October. This was the largest net deposit loss since last April. At Mutual Savings banks, total deposits declined $900 million, while net new deposits fell $1.8 billion during October. This also was one of the largest deposit outflows for the year. Finally, commercial banks, which have not suffered the declines in deposits that the thrift institutions have, also have suffered deposit declines recently. Commercial bank deposits declined $14.8 billion during October. This followed a $17.6 billion decline in commercial bank deposits in September.

The main reason for the accelerated deposit decline in depository institutions during the Fall was that the institutions were not only facing competition from the money market funds, but the equity markets began to draw capital when the stock market boomed in August. The result in this deposit drain was reduced capacity of depository institutions to lend; particularly for long-term mortgages. Mortgage loans closed declined contraseasonally from $5 billion in September to $4 billion in October at insured Savings and Loan Associations. Similarly, mortgage loans held at Mutual Savings banks declined $66 million at Mutual Savings banks and even Commercial banks, which have been steadily increasing their holdings of real estate loans of $41 million during October.

On the other hand, the Federal Home Loan Mortgage Corporation agreed to purchase more than $200 million of home loans during the first week of November. This was almost 20 times the weekly purchases of last June. Demand for FHA and VA loans is exceeding a rate of one million a year. The rate has not been that high in 11 years. Much of this lending is being originated by mortgage bankers and being sold in the secondary markets. That is one of the reasons the standardized FHA and VA loans are being increasingly used. The other, of course, is the low ceiling rates on these loans.

The outlook is for this activity to subside during the early part of 1983 as interest rates in general and mortgage rates in particular rise. Mortgage commitment rates will be moving from the levels of near 14% currently to peaks of near 15% in the second quarter. Rates should then start a gradual decline, dropping to around 13.5% in 1984.

The secondary markets and mortgage banking will again become active in the second half of 1983 as mortgage rates decline and the thrift institutions play a reduced role in mortgage lending.

Residential Real Estate

Spurred by interest rates which have been declining since late summer, it appears that housing markets have begun their recovery at long last. Optimism should still be tempered though by the fact that dramatic declines in visible interest rates, particularly the FHA/VA rate, has produced only modest increases in resale housing activity.

Existing home sales in October stood at a seasonally adjusted 1.92 million unit annual rate--approximately the same as a year earlier and 100,000 units higher than the low point reached in August. While any increases are useful, it must be remembered the existing home sales have basically been on a plateau since October 1981 and the current data does not lift home sales from that plateau. With 10 months of data now in, it is clear that fewer than two million existing homes will be sold this year for the first time since 1970. Moreover, it is likely that home sales will be approximately half what they were in 1978. The apparent turnaround in activity bodes well for 1983 and 1984, with a sustained but gradual improvement in home sales activity expected, 2.6 million sales are forecast next year, increasing to 3.2 million in 1984.

Housing construction is also expected to move forward. Currently, housing units are being started at a 1.1 million unit annual rate. While the total is noticeably higher than a few months ago, the bulk of the improvement has been in multi-family units, but in the last couple of months some strength seems to have returned to the essential single-family component.

Single-family starts are expected to rise to 900,000 units next year and 1.1 million units in 1984. Since multi-family starts are also expected to remain strong, total housing starts are expected to reach 1.4 million units in 1983 and 1.7 million units in 1984. Despite the rapid rate of multi-family housing construction, the rental vacancy situation is expected to remain tight at 5.2%.

The depressed housing market has virtually eliminated appreciation in housing prices in 1983. Prices of existing homes sold in October were a mere 2.3% higher than a year ago, lower than the rate of inflation and still overstated due to the costs of seller participation in financing. This sluggish price performance is expected to continue for the next several months as the unsold inventory of homes is liquidated, then to begin to increase more rapidly as the demographic pressures combine with limited availability because of the low construction levels in the last several years. Overall, housing prices next year are expected to increase at a rate somewhat below the inflation rate, and to somewhat exceed inflation in 1984.

Commercial and Industrial Investment

The sluggish economy and overcapacity continue to keep nonresidential construction at low levels. Private nonresidential construction was nearly unchanged in October in comparison with September and is nearly 3% down from its most recent peak in June. Office and other commercial construction both showed declines in October after exhibiting growth throughout the year while industrial construction posted a surprising 3% gain.

Nevertheless, even with the strong performance in office construction over the year and the increase in industrial construction in October, private construction was 0.5% below the total for last year through the first 10 months.

The outlook is for further declines as nonresidential contracts fell 9% in October. An 11% drop in commercial and industrial building was the primary factor in the decline. Again, overcapacity due to the weak economy is causing further cutbacks in the investment plans of business and developers. With the economy showing little growth before the second half of the year, significant recovery in nonresidential building is not expected before late in 1983 and will progress only slowly into 1984.

Table 1

U.S. ECONOMIC OUTLOOK

DECEMBER 1982

	QUARTERS							YEARS				
	Actual	Forecast						Actual		Forecast		
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1980	1981	1982	1983	1984
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,081	3,124	3,182	3,228	3,294	3,373	3,444	3,524	2,633	2,938	3,061	3,269	3,567
Percent Change	4.7	5.7	7.6	5.9	8.4	10.0	8.7	9.5	8.9	11.6	4.2	6.8	9.1
Percent Change (without inflation)	0.0	0.3	1.7	1.7	3.7	4.3	2.4	3.4	-0.4	1.9	-1.7	1.7	3.2
Consumption	1.1	2.0	2.2	3.0	3.3	3.8	-0.1	2.3	0.3	1.8	0.9	2.4	2.1
Durables	-5.3	7.0	0.1	4.8	7.3	11.2	-2.1	6.5	-6.9	2.2	-1.6	3.3	4.6
Nondurables	1.4	-0.1	3.6	3.3	2.6	2.3	0.6	1.7	0.8	1.8	0.6	2.3	1.7
Services	2.9	2.2	1.7	2.3	2.6	2.8	0.0	1.6	2.4	1.7	1.9	2.3	1.5
Residential Investment	6.1	28.2	23.0	7.4	12.2	17.1	14.1	17.3	-20.1	-4.9	-9.3	16.3	15 6
Nonresidential Investment	-10.8	-13.1	-9.4	-6.6	7.4	10.6	6.3	7.0	-2.3	3.5	-4.5	-6.9	6.7
Structures	-11.4	-18.4	-13.9	-30.1	-1.1	4.5	12.0	13.0	-1.1	6.3	1.1	-14.4	5.1
Equipment	-10.5	-10.3	-7.2	5.7	11.1	13.0	4.2	4.7	-2.7	2.4	-6.9	-3.3	7.4
Exports	-18.7	0.8	2.1	2.0	1.4	4.0	3.0	2.8	8.9	-0.5	-3.4	-0.7	2.9
Imports	7.6	-6.9	1.1	5.1	5.8	6.3	3.4	2.9	-0.4	7.2	1.6	2.7	4.1
Government Purchases	6.8	6.7	-2.4	-0.2	2.0	0.7	1.5	3.8	2.2	0.9	0.9	1.3	1.9
Consumption (% of GNP)	64.8	65.1	65.1	65.3	65.3	65.2	64.8	64.6	63.1	63.1	64.7	65 2	64.5
Residential Investment (% of GNP)	2.8	2.9	3.1	3.1	3.2	3.3	3.4	3.6	3.2	3.0	2.8	3.2	3.5
Nonresidential Investment (% of GNP)	11.0	10.6	10.3	10.1	10.1	10.3	10.4	10.5	11.3	11.4	11.1	10.2	10.5
Inventory Change ($ billions)	2.9	-13.4	-3.8	0.6	3.7	6.3	15.5	14.1	-10.0	20.4	-15.6	1.7	16.6
Mfg. Capacity Utilization Rate (%)	70	68	69	69	70	72	72	73	79	78	70	70	73
Auto Sales (millions of units)	7.7	8.0	7.8	7.8	8.0	8.0	7.5	7.6	9.0	8.5	7.8	7.9	7.7
Manufacturing Industrial Production (% change)	-1.0	-5.0	4.0	4.9	8.0	9.4	2.5	5.4	-4.5	2.4	-8.2	2.0	5.7
Common Market	-5.5	0.4	1.7	2.7	2.6	3.4	3.1	1.3	0.2	-1.7	-0.5	0.5	2.5
Japan	7.0	5.2	6.7	4.3	4.2	3.8	5.2	5.7	6.8	3.1	1.6	4.6	4.7
Employment (millions)	99.8	99.1	99.3	100.3	100.8	101.5	102.1	103.0	99.3	100.4	99.5	100.5	103.3
Unemployment Rate (%)	9.9	10.6	10.8	10.2	10.2	10.0	9.8	9.5	7.2	7.6	9.7	10.3	9.4
Disposable Income per Household (average)	27,489	27,786	28,229	28,665	29,516	30,106	30 609	31,127	23,240	25,604	27,190	29,129	31,479
Percent Change -- Year Ago (w/o inflation)	0.2	0.1	0.9	0.7	2.2	3.0	3.1	3.1	-0.9	1.5	0.3	1.7	2.5
Total Taxes per Household (average)	13,160	13,274	13,606	13,804	13,804	14 089	14,445	14,774	11,806	13,186	13,141	13,826	14,918
Percent Change -- Year Ago	-1.6	0.8	4.9	4.9	4.9	6.1	6.2	7.0	8.4	11.7	-0.3	5.2	7.9
Percent of Disposable Income	47.9	47.8	48.2	48.2	46.8	46.8	47.2	47.5	50.8	51.5	48.3	47.5	47.4
Household Debt as Percent of Disposable Income	77.9	77.8	77.3	76.6	74.7	73.7	73.0	72.5	80.7	79.1	78.3	75.6	72.2
Consumer Price Inflation (CPI)	7.6	2.8	5.7	7.2	7.2	6.1	6.7	6.5	13.5	10.3	5.1	5.8	6.6
Gross National Product Inflation (GNP Deflator)	4.7	5.4	5.8	4.1	4.6	5.4	6.2	5.9	9.3	9.4	6.0	5.0	5.7
Personal Consumption Inflation	7.0	4.8	6.1	4.8	4.9	5.0	6.3	5.3	10.3	8.6	5.8	5.3	5.4
Residential Construction Inflation	0.4	2.8	4.5	4.7	5.8	5.6	7.6	6.3	9.4	7.0	2.2	3.4	6.5
Nonresidential Construction Inflation	-0.7	3.4	5.6	4.8	5.8	5.4	8.0	6.3	14.0	10.3	6.3	4.2	6.6
Producers Price Inflation (WPI)	3.8	0.4	4.6	3.3	3.8	5.8	7.7	7.1	14.1	9.1	2.0	3.2	6.3
Compensation per Manhour (% change)	6.4	5.0	6.6	5.9	6.8	6.6	8.9	6.6	10.3	9.6	7.1	6.2	7.2
Productivity (% change)	3.7	3.4	1.5	1.4	1.7	2.0	1.3	1.7	-0.9	1.4	0.1	2.1	1.6
Unit Labor Cost (% change)	2.9	1.7	5.1	4.5	5.0	4.5	7.5	4.8	11.2	8.1	6.9	4.0	5.5
Unit Capital Cost (% change)	8.0	7.4	6.7	6.0	5.4	5.0	4.8	4.7	11.6	10.2	8.1	5.8	4.7
Before Tax Corporate Profits ($ billions)<1>	198	194	196	196	202	213	220	228	252	259	192	202	232
Corporate Tax Liability	61	57	58	58	59	63	65	68	85	81	58	60	69
'Windfall Profits' Tax Receipts	18	18	18	19	19	19	21	21	9	27	17	19	21
Inventory Valuation Adjustment	-10	-4	-7	-9	-9	-15	-23	-25	-43	-25	-7	-10	-24
Capital Consumption Adjustment	-4	0	7	9	11	13	12	10	-18	-17	-5	10	9
After Tax Profits	119	119	119	120	123	131	134	139	158	151	117	123	141
Profits from Current Production (with IVA, CCA)	105	115	119	120	126	128	122	124	97	109	105	123	127
Adjusted for Inflation (82:1 base)	103	111	113	113	117	118	111	111	111	114	103	115	112
Percent Change - Year Ago	-10.0	-2.2	12.8	14.6	13.8	6.2	-2.3	-1.9	-17.2	3.0	-9.4	11.7	-2.9
Per Unit of Output (% of GNP)	3.4	3.7	3.7	3.7	3.8	3.8	3.6	3.5	3.7	3.7	3.4	3.8	3.5
Effective Corporate Tax Rate (%)<1>	37	34	34	34	33	34	36	36	46	43	36	34	36
Federal Tax Receipts (Unified basis)	597	540	549	768	633	596	610	817	533	620	607	636	709
Federal Expenditures (Unified basis)	742	797	820	833	824	873	895	910	596	698	733	838	914
Surplus or Deficit (Unified basis)	-145	-257	-272	-65	-191	-277	-286	-92	-63	-78	-127	-201	-204
% of GNP	4.7	8.2	8.5	2.0	5.8	8.2	8.3	2.6	3.0	3.8	4.1	6.1	5.7
% of Personal Savings	93.9	173.0	184.7	44.0	107.5	151.7	146.7	46.3	75.7	85.5	85.5	122.0	97.2
% of Total Private Savings	26.4	46.2	48.2	11.3	31.0	44.0	44.4	14.1	18.1	21.8	23.2	33.6	30.4

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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Table 2

REAL ESTATE AND FINANCIAL MARKETS — DECEMBER 1982

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	1,843	2,071	2,311	2,565	2,709	2,868	3,053	3,215	2,881	2,351	1,945	2,613	3,246
Percent Change - Year Ago	-18.2	7.7	19.6	32.9	47.0	38.5	32.1	25.3	-22.2	-18.4	-17.3	34.4	24.1
Dollar Volume (billions)	150.5	165.2	186.7	209.7	225.6	236.9	255.2	276.7	209.7	184.1	156.2	214.7	282.1
Existing Home Prices - Median ($1000's)	68.7	67.6	68.9	70.2	71.9	71.6	72.7	75.1	62.2	66.4	67.8	70.7	75.8
Percent Change - Year Ago	1.7	2.1	3.2	3.1	4.6	6.0	5.5	6.9	11.7	6.8	2.5	4.2	7.3
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	773	695	653	698	720	696	686	705	588	742	759	692	712
Percent of Household Income	29	25	24	25	25	24	23	23	26	29	28	24	23
New Single-Family Home Sales (thousands)	398	419	460	479	515	561	578	592	530	426	392	504	602
Percent Change - Year Ago	7.8	4.5	19.5	30.7	29.5	33.9	25.7	23.6	-25.2	-19.6	-10.3	28.5	19.4
New Home Prices - Median ($1000's)	70.7	71.0	71.7	72.4	73.3	74.3	75.6	76.8	64.6	68.9	69.4	72.9	77.5
Percent Change - Year Ago	2.0	1.8	8.0	4.0	3.8	4.6	5.5	6.1	2.7	6.7	0.8	5.0	6.3
New Home Prices--Mean ($1000's, Quality Adjusted)	87.6	90.1	92.3	92.5	92.3	95.4	97.3	98.9	78.8	85.3	88.7	93.1	99.8
Percent Change - Year Ago	2.0	3.2	4.5	4.2	5.4	5.9	5.4	6.9	11.0	8.8	3.8	5.0	7.1
New Mortgage Commitments ($ billions)	57.5	61.8	66.5	67.0	65.5	58.6	72.3	87.5	87.2	60.0	56.5	64.4	101.1
Percent Change - Year Ago	18.6	35.9	13.5	39.1	13.9	-5.1	8.8	30.6	-32.4	-31.2	-5.8	14.0	57.0
Mortgage Debt Outstanding ($ billions)	1,636	1,653	1,678	1,707	1 747	1,785	1,821	1,867	1 400	1,537	1,629	1,729	1,898
Homeowners' Equity ($ billions)	2,245	2,253	2,304	2,326	2,349	2,378	2,416	2,458	2,097	2,208	2,245	2,339	2,483
Housing Inventory (millions)	85.0	85.1	85.2	85.4	85.5	85.7	85.9	86.1	83.8	84.5	84.9	85.5	86.3
Private Housing Starts (thousands)	1,112	1,140	1,171	1,177	1,277	1,336	1,403	1,470	1,292	1 084	1,031	1,240	1,527
Single-Family	648	685	725	754	839	873	912	959	852	705	633	798	1,001
Multi-Family	465	455	446	423	438	463	491	511	440	379	398	440	526
Subsidized	136	113	75	57	43	33	17	10	173	115	135	52	10
Mobile Home Shipments (thousands)	234	230	254	258	259	270	285	302	223	240	239	260	307
Rental Vacancy Rate (%)	5.3	5.2	5.2	5.1	5.1	5.1	5.1	5.1	5.4	5.0	5.2	5.1	5.1
Unsold New Homes (% of sales)	65.1	60.5	65.9	71.2	73.6	73.2	72.0	69.2	68.4	75.6	68.3	71.0	67.5
Office Vacancy Rate (%)<1>	8.9	9.2	9.4	9.5	9.3	9.2	9.0	8.7	3.7	4.3	7.6	9.3	8.5
Industrial Vacancy Rate (%)<1>	4.6	4.9	5.2	5.5	5.4	5.4	5.2	5.1	3.5	3.7	4.4	5.4	4.9
New Commercial Building Construction (% Ch Value)	-11.5	-17.1	-16.8	-22.9	13.2	16.7	28.1	21.1	21.8	13.9	7.0	-10.9	16.3
New Industrial Building Construction (% Ch Value)	-13.3	-6.6	-10.8	-4.5	-5.6	-0.3	6.2	7.8	-6.8	22.0	-1.3	-7.1	4.5
FINANCIAL MARKETS													
Personal Savings Rate (%)	7.0	6.7	6.5	6.4	7.4	7.5	7.8	7.9	5.8	6.4	6.7	6.9	8.2
Money Supply (M1b) (% change)	3.5	14.3	1.9	3.0	7.4	6.0	2.1	2.7	6.3	7.0	6.3	5.5	4.1
Money Supply (M2) (% change)	10.1	13.5	6.5	6.5	9.1	9.1	9.8	11.5	8.3	9.8	10.1	8.9	10.7
Total Time and Savings Deposits (% change)	11.2	5.1	7.9	7.1	6.1	6.0	6.8	9.2	7.6	8.9	7.9	7.5	7.6
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	16.75	14.67	13.79	14.52	14.64	14.28	13.92	13.87	14.00	16.71	16.54	14.31	13.86
Real Mortgage Rate	12.01	9.25	8.01	10.38	10.07	8.84	7.73	7.95	3.82	7.85	11.78	9.32	7.69
Assumption Rate	11.78	11.92	12.11	12.06	11.92	11.54	11.35	11.26	10.70	11.00	11.82	11.91	11.16
Seller Take Back Mortgage Rate	12.30	12.40	12.25	12.05	11.85	11.80	11.76	11.60	11.50	11.80	12.33	11.99	11.59
Blended Rate	14.39	13.14	12.65	13.14	13.28	13.10	12.95	12.95	12.23	14.15	14.23	13.04	12.95
Corporate Bond Rate (AAA)	14.09	11.01	11.13	10.99	10.75	10.26	10.26	10.35	11 94	15.01	13.88	10.78	10.35
Government Bond Rate	13.00	10.24	11.43	11.54	11.20	10.56	10.06	9.77	11.51	14.34	12.95	11.18	9.68
Real Long-term Government Bond Rate	8.25	4.83	5.06	7.40	6.63	5.11	3.87	3.86	1.33	6.48	8.18	6.20	3.51
Federal Funds Rate	11.01	9.08	10.38	12.18	12.81	12.53	11.88	11.21	13.36	16.38	12.21	11.97	10.83
3 Month Treasury Bills	9.32	7.46	8.95	10.60	11.20	11 14	10.65	10.20	11.43	14.03	10.50	10.47	9.96
1 Year Treasury Bills	11.84	8.90	10.07	11.67	12.08	11.81	11.20	10.70	12.05	14.78	12.22	11.41	10.49
Commercial Paper Rate	11.15	8.83	10.18	12.17	12.85	12.76	12.15	11.62	12.66	15.33	11.90	11.99	11.36
Rate on Money Market Fund Shares	11.40	9.00	10.30	12.46	13.22	13.14	12.50	11 95	12.89	15.68	12.13	12.28	11.65
Prime Rate	14.72	11.58	11.49	12.91	13.83	14.09	14.00	13.05	15.27	18.87	14.77	13.08	12.98

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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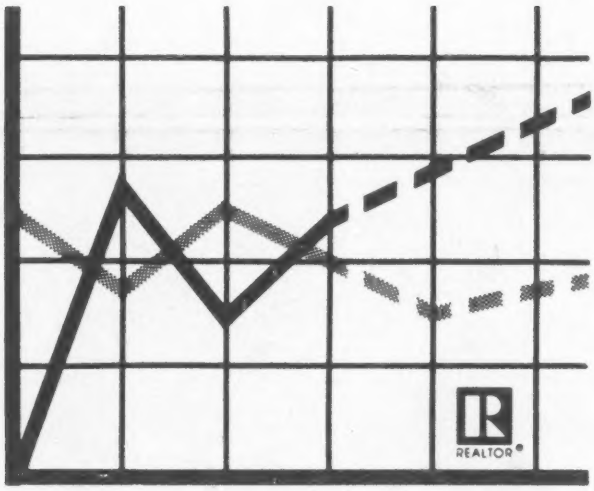
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Introduction

Some indication emerged in December that the end of the current recession is near. Home starts and auto sales, long depressed from high interest rates, improved during the final two months of 1982. After languishing around one million units per year through most of 1982, home starts leaped to a 1.4 million annual rate in November as mortgage rate fell below 14%. There are also signs that unemployment may reach its peak soon. However, overall national output is unlikely to start rising until spring and the next recovery is expected to have modest strength. National output, after adjusting for inflation, is forecast to increase around 1% this year and 3.5% in 1984--about half the usual recovery. The forecast upturn in housing activity is also expected to be modest. Around 1.35 million home starts and 2.45 million existing home sales are anticipated in 1983. This would represent a 25% improvement over last year's depressed levels, but would still be nearly 40% below normal level.

With the recession-induced decline in private borrowing demand and easier credit policies by the Federal Reserve Board, interest rates have fallen dramatically over the last three months. However, the huge drain placed on available savings by this year's exploding federal deficits (expected to be over $200 billion), together with a stronger economy, should renew upward pressure on interest rates in early 1983. Fortunately, interest rates are not expected to reach last year's peak levels and should resume their downward path by late 1983.

The Economy

Despite the boost to disposable income from the second round of tax cuts last July, consumer spending remained sluggish in the second half of 1982. Even the welcome upturn in auto sales during the final three months of the year was not sufficient to make overall expenditures boom; consumer spending grew at just a 2.1% annual rate in the fourth quarter following the mediocre 0.6% annual increase in the previous three months.

The rising unemployment rate and generally slow growth in people's incomes have been major factors holding down consumer spending, especially for "postponable" durable goods purchases. Rising personal savings rates--typical in recessions, but also reinforced by the incentives provided by the 1981 tax changes--and high consumer interest rates have also played major roles.

However, there is evidence that a modest upturn in consumer spending may be just around the corner. Auto sales are expected to be stronger in 1983 and generally lower consumer interest rates should boost purchases of other durable goods. There is also evidence that savings rates may be declining slightly as the recession bottoms out. For example, personal savings as a share of disposable income fell to around 6% in the fourth quarter of 1982; compared with 7.6% in the final period of the previous year. Although this declining savings share contributes to stronger consumer spending, with the federal deficit expected to exceed $200 billion, this will also put more upward pressure on interest rates in the spring.

Led by a generally stronger durables performance, consumer expenditures are expected to increase around 1.5% this year and 3% in 1984. While this is a modest improvement over the poor 0.8% growth achieved last year, it should not be enough to generate a booming overall economy.

Business investment, too, will remain sluggish until the second half of 1983. Despite much higher real interest rates, business investment in the 1982 recession performed better than expected and certainly showed a smaller decline than during the 1973-75 downturn.

However, the record low levels of industrial production and low farm incomes have already severely cut investment in both new equipment and nonresidential structures. The impact of high interest rates, too, has nullified the positive effects of the tax incentives from the 1981 tax reform.

Lower interest rates and slightly stronger growth in 1983 should, nevertheless, lead to an upturn in business investment this year. By fall, investment in new equipment should again be growing at around a 4% annual rate.

New nonresidential construction should take longer to begin the next upturn as the current surplus of office space is slowly worked off. By 1984, however, nonresidential construction should be growing around 1.5% a year.

One legacy of the record high U.S. interest rates over the last three years has been an overvalued U.S. dollar on international exchange markets. As a result, U.S. exports are being priced out of traditional markets and imports become more competitive in the U.S. Fortunately, the dollar has recently weakened against many of the currencies, which should improve the competitiveness of U.S. goods, both at home and abroad in 1983. Nevertheless, the residual effects of the past three years' overvaluation, together with slow growth in major overseas markets, should keep the volume of U.S. exports declining through this year and further dampen the strength of the next recovery.

Overall, GNP is expected to grow just under one percent this year. By 1984, growth should be stronger, averaging around 3.6% per year--only about one-half the average recovery during the last 30 years.

Inflation and Unemployment

The severity of the current recession has been the dominant factor behind the vastly improved inflation outlook. The tradeoff in terms of higher unemployment has been steep, however. While consumer price inflation has fallen to under 5% (from nearly 12% at the beginning of 1981), unemployment has risen from 7.5% to 10.8% over the same period. Looking at another way, each 1% reduction in the inflation rate is currently "costing" about $14 billion a year in lost output and fewer jobs.

Fortunately, the lower inflationary profile should continue over the next two years at least. Labor costs will probably continue to grow at around 6-7% a year during the next recovery, food and energy cost increases should be moderate also until mid-1984. Overall, consumer price inflation is expected to average around 6% a year over the next two years.

Monetary and Fiscal Policies

The prospects of federal deficits exceeding $200 billion--or 116% of personal savings--represents the biggest threat to the next economic recovery. Deficits of this magnitude drastically reduce the funds available for housing and other private investment and put upward pressure on interest rates.

A large share of the federal deficit comes from the huge cuts in individual income taxes enacted in 1981. Since most of this tax cut is consumed rather than going into increased savings, these exploding deficits will be accompanied by an increase in the share of output going for consumer spending and a decrease in the share devoted to housing and other investment. For example, consumer

spending as a share of GNP is expected to reach 65.1% this year compared with under 63% in 1979, while the share of housing and investment will likely decline from 15% in 1979 to a forecast 14% this year. Ironically, this is the opposite of the intent of Congress and the Administration when the 1981 tax reforms and spending slowdowns were first enacted.

Unfortunately, the battle to reduce these exploding deficits will be long and difficult. Congress is increasingly reluctant to trim non-defense spending further, and the "sacred cows" of social security and defense outlays will likely resist efforts from budget cutters for major slowdowns this year. The Administration is also showing no signs of being willing to support delays or postponements in this year's scheduled personal tax cuts, or to propose further increases in excise taxes and other taxes falling on consumer spending.

While the federal deficit continues to grow unchecked, the course of interest rates will depend heavily on the credit policies adopted by the Federal Reserve Board. After three years of exceptionally stringent control over credit growth, the Federal Reserve Board has recently eased its monetary policies considerably. The discount rate--a key short-term rate--has been lowered in steps from 12% in June to 8% in late December and the money supply has been allowed to exceed its target growth rates. In late November 1982--the base period for calculating new growth targets for the Fed--the basic money supply (M1) was nearly 4% above the upper target level and the broader money definition (M2) was nearly 1% above target. This easier credit policy was prompted mainly to stimulate the economy as the recession proved deeper than expected. It also has accomodated the exploding deficit, forcing rates down even as government borrowing grows. Now the question is whether the Fed will continue its recent easier credit policies as the economy recovers. Most likely it will not, but instead lean against the growing federal borrowing demands to prevent undue growth in the money supply and a possible rekindling of inflation. This will exert further upward pressure on interest rates in the spring.

Mortgage Flows and Interest Rates

As the recession deepened and the Fed eased credit policy, interest rates tumbled in the second half of 1982. The prime rate dropped from 18% in June to 11.5% in December, while mortgages declined from 18% to 14% over the same period. In addition, the "yield curve" returned to its traditional positive shape, with short-term interest rates less than long-term rates. This is of particular importance to the thrift institutions and other traditional mortgage originators. While short-term interest rates were above long-term rates--a situation common during periods of exceptional credit tightness--thrifts were losing money on new mortgage lending, since their borrowing costs for new funds exceed returns on new long-term assets. A return to markedly lower short-term rates (below long-term rates) increases the incentive for mortgage lending by the thrifts and reduces their operating losses.

Although interest rates are expected to rise in the spring, they are unlikely to reach the peak levels of 1981 or 1982. The federal funds rate is expected to peak at around 12.5% in mid-year compared to the current 8%--before easing to around 11% in 1984. New mortgage rates are expected to peak in the 15-16% range by mid-year before declining to just under 14% next year.

Lower interest rates have led to a surge in new mortgage commitment activity at thrifts and in the secondary market, although much of this so far has been for refinancing purposes.

The Federal Home Loan Bank Board reported that S&Ls in November recorded the largest volume of new mortgage commitments in two years. This higher level of activity was aided by a much improved net deposit inflow into traditional lenders as the rundown in "all savers" certificates slowed. Deposit balances at S&Ls increased by $1 billion in November compared to a $0.4 billion decline in the previous month.

However, deposit balances at mutual savings banks fell in November due to big drops in "all savers" certificates and small time deposits.

Commercial bank deposit inflow continues to be relatively healthy as checking and savings accounts and 7-day money market certificate deposit growth have stayed strong. This has allowed commercial banks to continue expanding real estate loans at around 5% a year.

Deposit inflow is expected to sustain its improved performance this year with time and savings deposits increasing at $94 billion (about 7.3%) in 1983. Although much of this deposit inflow will be invested in liquid assets, it should be sufficient to boost new mortgage commitment activity to nearly $90 billion this year--up from just $60 billion in 1982.

Residential Real Estate

The recent declines in interest rates have at last begun to stimulate housing activity. Sales of existing homes increased to a 2.1 million annual rate in November, up 10% from a year ago. All regions showed strong upturns in November, and, with the exception of the West, all regions registered substantially higher sales than in the same period one year ago.

TABLE 1

EXISTING SINGLE-FAMILY HOMES SALES FOR THE UNITED STATES AND EACH REGION
(Seasonally Adjusted Annual Rates)

	United States	Northeast	North Central	South	West
1981					
November	1,900,000	270,000	490,000	800,000	340,000
December	1,940,000	270,000	500,000	810,000	360,000
1982					
June	1,430,000	320,000	480,000	830,000	310,000
July	1,890,000	340,000	470,000	790,000	290,000
August	1,820,000	330,000	450,000	770,000	260,000
September	1,840,000	350,000	470,000	770,000	250,000
October	1,930,000	330,000	490,000	830,000	280,000
November	2,100,000	360,000	530,000	900,000	310,000

While these represent a substantial improvement over the dismal levels which prevailed over most of 1981 and 1982, housing activity remains well below the underlying demand.

Under normal conditions, over two million new home starts and four million existing home sales are needed each year to provide for new household formation, maintain the existing stock of housing and allow households to own homes in the location of their choice.

Housing activity is expected to continue its upward trend through 1984 although at a restrained pace. Sales of existing homes should average about 2.5 million units in 1983, rising to just under 3.2 million in 1984. Home starts may reach 1.35 million this year and grow to 1.5 million in 1984.

This increase in housing activity, while modest, offers substantial benefits to the economy, adding as much as 1.5 percentage points to economic growth and 1.5 million new jobs by 1984.

The deep depression in housing over the last three years has pushed home price appreciation down below the rate of inflation. The November median sale price for existing single-family homes--at $68,000--was just 3.4% above the same period 12 months earlier, although these figures do not take into account the effect of seller financing. As housing activity picks up and the inventory of unsold houses is reduced, home prices are expected to accelerate slightly this year. For 1983 as a whole, existing home prices are likely to increase over 4% to about $70,900 and rise a further 7% to $76,100 in 1984.

The recent dramatic declines in mortgage rates and slow growth in housing prices have greatly improved the affordability situation for potential home-buyers. Monthly payments (P&I) on a median priced home are today down $200 compared with their peak in 1982.

Despite the shortlived upturn in mortgage rates in the spring, this modest improvement in affordability is expected to be maintained in 1983. Monthly payments on a typical home are forecast to average around $700 this year, or 8% less than in 1982.

TABLE 2

SALES PRICE OF EXISTING SINGLE-FAMILY HOMES
FOR THE UNITED STATES AND EACH REGION
(Not Seasonally Adjusted)

	United States	Northeast	North Central	South	West
1981					
November	$65,900	$62,500	$53,100	$64,000	$ 95,400
December	66,600	63,600	53,800	66,000	94,100
1982					
June	69,400	63,300	56,100	70,000	100,100
July	69,200	64,100	56,200	69,100	100,400
August	68,900	65,500	55,600	68,600	98,000
September	67,300	64,600	54,100	66,100	97,500
October	66,900	63,100	53,700	65,800	99,200
November[P]	68,200	66,800	56,200	66,300	100,400

P Preliminary

Nonresidential Real Estate

The continuing boom in office buildings has so far propped up nonresidential construction activity. Retail store construction is off 36% from its 1978 peak as sales have slowed and record low capacity utilization rates in manufacturing

has pushed industrial investment down 12% from its peak levels. Low agricultural commodity prices have lowered farm construction by 32% from the 1978 peak. These poor performances, however, have been so far offset by the strength of the commercial office market.

TABLE 3

COMPARISON OF NONRESIDENTIAL PRIVATE CONSTRUCTION
DURING THE CURRENT AND PREVIOUS RECESSION

	1973-1975 Peak-Trough Decline	1978-1982 Peak-Trough Decline	1978-1982 Peak to 1982:3 Decline
Commercial Buildings	-39.0	-4.1	-3.4
Commercial Structures	-39.3	-4.1	-3.4
Commercial Office	-40.6	-15.2	0.0
Other Commercial	-40.5	-35.8	-35.8
Petroleum	-15.0	-11.6	-11.6
Mining	-7.3	-11.6	0.0
Industrial	-24.4	-12.1	-12.1
Farm	-12.0	-31.5	-31.5
Public Utilities	-20.7	-20.4	-19.3
Total Buildings	-31.9	-2.6	-2.6

Source: Data Resources, Inc.

Square footage of office space put in place probably peaked in late 1982 and was above 1978 (boom) levels. However, according to F.W. Dodge data, new contracts are now running 30% below average, signalling the end of the current boom.

With office construction almost certain to fall in 1983, overall nonresidential investment has nowhere to go but down. Industrial construction is likely to fall through the end of 1983, and farm construction should remain depressed as agricultural commodity prices stay in the doldrums. Retail construction may pick up by mid-year as consumer spending leads the way out of the next recovery; but in the overbuilt office market, the next upturn is at least 12 months away.

Overall investment in nonresidential structures is likely to decline by almost 10% this year following 1982's 2% increase. By 1984, however, commercial and industrial investment should be back on a positive growth track, averaging 1.3% a year.

Table 1

JANUARY 1983

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1980	1981	1982	1983	1984
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,088	3,123	3,166	3,225	3,252	3,363	3,438	3,523	2,633	2,938	3,063	3,261	3,576
Percent Change	5.8	4.6	5.6	7.6	8.6	9.0	9.1	10.3	8.9	11.6	4.3	6.5	9.6
Percent Change (without inflation)	0.7	-1.4	0.1	1.9	3.1	3.0	2.7	4.3	-0.4	1.9	-1.7	0.9	3.6
Consumption	0.6	2.1	0.3	1.6	2.5	3.6	1.9	4.0	0.3	1.8	0.8	1.5	3.0
Durables	-5.4	8.5	-2.8	3.2	5.8	13.5	2.4	8.9	-6.9	2.2	-1.6	2.4	7.4
Nondurables	1.5	0.9	0.3	1.3	1.4	1.9	1.9	2.8	0.8	1.8	0.7	1.1	2.1
Services	1.7	1.1	1.3	1.3	2.4	2.1	1.7	3.4	2.4	1.7	1.7	1.5	2.4
Residential Investment	-5.9	67.2	44.2	11.3	1.8	2.3	3.2	11.1	-20.1	-4.9	-9.1	23.4	7.5
Nonresidential Investment	-7.7	-10.7	-12.3	-4.1	3.0	3.0	4.8	6.5	-2.3	3.5	-3.9	-7.2	4.4
Structures	-5.2	-20.7	-13.7	-9.0	-1.8	4.7	3.1	0.3	-1.1	6.3	1.8	-9.8	1.3
Equipment	-8.8	-5.5	-11.7	-1.7	5.3	2.3	5.4	9.4	-2.7	2.4	-6.4	-5.9	5.8
Exports	-16.7	-5.8	-1.5	2.9	3.8	2.6	1.6	5.2	8.9	-0.5	-5.5	-2.2	3.4
Imports	4.5	-5.8	2.0	3.1	4.3	4.2	4.0	4.2	-0.4	7.2	1.3	2.1	4.1
Government Purchases	8.4	3.8	-1.7	-1.1	2.3	0.5	0.5	4.2	2.2	0.9	1.0	1.0	1.8
Consumption (% of GNP)	64.6	65.1	65.2	65.1	65.0	65.1	65.0	64.9	63.1	63.1	64.7	65.1	64.8
Residential Investment (% of GNP)	2.7	3.0	3.3	3.4	3.4	3.4	3.4	3.4	3.2	3.0	2.8	3.4	3.5
Nonresidential Investment (% of GNP)	11.0	10.8	10.4	10.3	10.3	10.3	10.3	10.4	11.3	11.4	11.2	10.3	10.4
Inventory Change ($ billions)	4.7	-22.8	-16.3	-6.9	-0.8	1.7	9.9	7.5	-10.0	20.4	-17.5	-5.6	13.0
Mfg. Capacity Utilization Rate (%)	70	68	69	69	70	70	71	72	79	78	70	69	73
Auto Sales (millions of units)	7.7	8.3	7.9	7.9	8.1	8.2	8.3	8.4	9.0	8.5	7.9	8.0	8.7
Manufacturing Industrial Production (% change)	-1.1	-5.6	3.3	3.5	5.4	6.0	3.7	8.0	-4.5	2.4	-8.3	1.0	6.1
Common Market	-5.5	0.4	1.7	2.7	2.6	3.4	3.1	1.3	0.2	-1.7	-0.5	0.5	2.5
Japan	7.0	5.2	6.7	4.3	4.2	3.8	5.2	5.7	6.8	3.1	1.6	4.6	4.7
Employment (millions)	99.8	98.9	99.0	99.6	100.1	100.6	101.2	101.9	99.3	100.4	99.5	99.8	102.3
Unemployment (millions)	11.0	11.9	12.3	12.1	12.0	12.0	12.0	11.8	7.7	8.3	10.7	12.1	11.6
Unemployment Rate (%)	9.9	10.8	11.1	10.8	10.7	10.7	10.6	10.3	7.2	7.6	9.7	10.8	10.2
Disposable Income per Household (average)	27,444	27,654	28,131	28,603	29,408	30,137	30,626	31,248	23,240	25,604	27,145	29,070	31,598
Percent Change -- Year Ago (w/o inflation)	0.2	0.1	0.9	0.7	2.2	3.0	3.1	3.1	-0.9	1.5	0.3	1.7	2.5
Total Taxes per Household (average)	13,163	13,290	13,560	13,795	13,779	13,987	14,348	14,648	11,806	13,186	13,146	13,780	14,838
Percent Change -- Year Ago	-1.5	0.9	4.5	4.9	4.7	5.2	5.8	6.2	8.4	11.7	-0.3	4.8	7.7
Percent of Disposable Income	48.0	48.1	48.2	48.2	46.9	46.4	46.8	46.9	50.8	51.5	48.4	47.4	47.0
Household Debt as Percent of Disposable Income	77.8	77.7	77.4	76.9	75.7	74.8	74.5	74.1	80.7	79.1	78.1	76.2	73.9
Consumer Price Inflation (CPI)	7.6	4.2	5.3	6.1	6.7	5.4	5.8	5.3	13.5	10.3	6.2	5.7	5.7
Gross National Product Inflation (GNP Deflator)	5.0	6.0	5.6	5.6	5.3	5.8	6.3	5.7	9.3	9.4	6.1	5.5	5.9
Personal Consumption Inflation	7.5	5.9	5.8	6.1	5.4	5.3	6.6	5.4	10.3	8.6	6.0	5.9	5.7
Residential Construction Inflation	0.3	3.7	5.7	5.5	6.0	5.5	7.4	6.2	9.4	7.0	2.5	4.0	6.5
Nonresidential Construction Inflation	-1.3	3.7	5.1	5.5	6.1	5.6	7.9	5.9	14.0	10.3	6.2	4.2	6.5
Producers Price Inflation (WPI)	3.7	2.4	6.4	5.0	5.1	7.0	8.5	5.8	14.1	9.1	2.1	4.5	6.6
Compensation per Manhour (% change)	6.4	5.2	6.8	6.2	6.9	6.8	9.0	7.0	10.3	9.6	7.1	6.3	7.4
Productivity (% change)	4.1	2.7	2.0	2.2	2.1	2.2	1.7	1.8	-0.9	1.4	0.1	2.4	1.9
Unit Labor Cost (% change)	2.6	2.4	4.8	3.9	4.7	4.5	7.2	5.1	11.2	8.1	7.0	3.9	5.5
Unit Capital Cost (% change)	8.0	7.4	6.7	6.0	5.4	5.1	4.9	4.8	11.6	10.2	8.1	5.8	4.8
Before Tax Corporate Profits ($ billions)<1>	198	200	201	198	201	207	213	222	252	259	194	202	229
Corporate Tax Liability	61	60	61	59	60	62	64	67	85	81	58	61	69
'Windfall Profits' Tax Receipts	18	18	18	19	19	19	21	21	9	27	17	19	21
Inventory Valuation Adjustment	-10	-4	-11	-13	-13	-18	-25	-22	-43	-25	-7	-14	-21
Capital Consumption Adjustment	-4	0	7	9	11	12	11	10	-18	-17	-5	10	9
After Tax Profits	119	122	122	120	122	126	128	134	158	151	118	122	138
Profits from Current Production (with IVA, CCA)	105	117	117	116	120	120	115	122	97	109	106	119	126
Adjusted for Inflation (82:1 base)	103	113	112	109	111	110	103	108	111	114	104	110	111
Percent Change - Year Ago	-10.0	-0.5	11.0	10.2	8.2	-2.9	-7.5	-0.6	-17.2	3.0	-9.0	6.3	0.4
Per Unit of Output (% of GNP)	3.4	3.8	3.7	3.6	3.7	3.6	3.3	3.5	3.7	3.7	3.5	3.6	3.5
Effective Corporate Tax Rate (%)<1>	37	35	35	35	34	35	37	36	46	43	36	35	36
Federal Tax Receipts (Unified basis)	597	541	545	767	631	588	602	807	533	620	607	633	703
Federal Expenditures (Unified basis)	742	794	814	824	808	865	888	903	596	698	733	828	906
Surplus or Deficit (Unified basis)	-145	-253	-269	-57	-178	-277	-286	-96	-63	-78	-126	-195	-203
% of GNP	4.7	8.1	8.5	1.8	5.4	8.2	8.3	2.7	3.0	3.8	4.1	6.0	5.7
% of Personal Savings	15.4	189.5	184.9	38.0	100.0	143.0	148.4	49.0	75.7	85.5	90.0	116.5	100.8
% of Total Private Savings	26.5	46.7	48.2	9.9	29.0	43.5	44.7	14.7	18.1	21.8	23.3	32.7	30.5

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 2

JANUARY 1983

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	1,879	2,061	2,164	2,379	2,539	2,713	2,952	3,106	2,881	2,351	1,923	2,449	3,149
Percent Change - Year Ago	-16.6	1.9	6.8	18.7	28.7	30.7	43.0	36.3	-22.2	-18.4	-18.2	27.4	28.6
Dollar Volume (billions)	155.0	163.6	174.6	194.6	211.8	224.6	247.4	268.0	209.7	184.1	154.7	201.4	274.6
Existing Home Prices - Median ($1000's)	69.9	67.6	69.1	70.5	72.2	71.9	73.0	75.4	62.2	66.4	68.1	70.9	76.1
Percent Change - Year Ago	3.5	2.2	3.5	3.5	3.3	6.4	5.7	6.9	11.7	6.8	3.0	4.2	7.3
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	773	695	653	698	720	696	686	705	588	742	759	692	712
Percent of Household Income	29	26	24	25	25	24	23	23	26	29	28	24	23
New Single-Family Home Sales (thousands)	384	392	411	469	497	554	580	600	530	426	382	483	613
Percent Change - Year Ago	4.1	-2.3	6.9	27.5	29.4	41.3	41.0	28.0	-25.2	-19.6	-12.5	26.3	26.9
New Home Prices - Median ($1000's)	69.8	69.3	69.7	70.3	71.2	72.0	73.3	74.3	64.6	68.9	68.9	70.8	75.0
Percent Change - Year Ago	0.7	-0.6	5.1	1.0	2.0	3.9	5.1	5.7	2.7	6.7	-0.1	3.0	5.9
New Home Prices--Mean ($1000's, Quality Adjusted)	87.6	90.1	92.3	92.5	92.3	95.4	97.3	98.9	78.8	85.3	88.7	93.1	99.8
Percent Change - Year Ago	2.0	3.2	4.5	4.2	5.4	5.9	5.4	6.9	11.0	8.8	3.8	5.0	7.1
New Mortgage Commitments ($ billions)	57.1	79.7	88.8	81.2	81.3	66.0	86.2	94.2	87.2	60.0	60.8	79.3	113.2
Percent Change - Year Ago	17.8	75.3	52.1	68.7	42.4	-17.2	-2.9	16.0	-32.4	-31.2	1.4	30.4	42.7
Mortgage Debt Outstanding ($ billions)	1,608	1,632	1,662	1,695	1,738	1,778	1,816	1,864	1,400	1,510	1,595	1,718	1,894
Homeowners' Equity ($ billions)	2,239	2,227	2,258	2,259	2,266	2,286	2,315	2,349	2,097	2,208	2,238	2,267	2,370
Housing Inventory (millions)	85.0	85.1	85.3	85.5	85.7	85.8	86.0	86.2	83.8	84.5	84.9	85.6	86.4
Private Housing Starts (thousands)	1,118	1,312	1,366	1,330	1,328	1,327	1,371	1,421	1,292	1,084	1,076	1,338	1,483
Single-Family	650	811	868	861	871	865	893	923	852	705	665	866	968
Multi-Family	468	501	498	469	457	462	477	497	440	379	410	472	515
Subsidized	136	113	75	57	43	33	17	10	173	115	135	52	10
Mobile Home Shipments (thousands)	234	222	245	245	242	247	255	270	223	240	237	245	281
Rental Vacancy Rate (%)	5.3	5.2	5.2	5.2	5.2	5.2	5.1	5.2	5.4	5.0	5.2	5.2	5.1
Unsold New Homes (% of sales)	65.1	60.5	65.9	71.2	73.6	73.2	72.0	69.2	68.4	75.6	68.3	71.0	67.5
Office Vacancy Rate (%)<1>	8.9	9.2	9.4	9.5	9.3	9.2	9.0	8.7	3.7	4.3	7.5	9.3	8.5
Industrial Vacancy Rate (%)<1>	4.6	4.9	5.2	5.5	5.4	5.4	5.2	5.1	3.5	3.7	4.4	5.4	4.9
New Commercial Building Construction (% Ch Value)	-8.8	-20.6	-17.0	1.3	12.3	16.8	15.4	8.0	21.8	13.9	7.1	-6.8	11.4
New Industrial Building Construction (% Ch Value)	-4.7	11.0	-17.3	-14.3	-12.4	-10.7	-4.5	1.9	-6.8	22.0	0.9	-8.0	-4.3
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.9	6.0	6.4	6.5	7.5	7.9	7.7	7.7	5.8	6.4	6.5	7.1	7.8
Money Supply (M1b) (% change)	3.5	17.4	6.6	1.6	7.6	5.7	3.2	4.0	6.3	7.0	6.5	7.0	5.0
Money Supply (M2) (% change)	10.1	10.4	7.9	5.3	9.1	8.2	8.8	10.0	8.3	9.8	9.9	8.4	9.7
Total Time and Savings Deposits (% change)	10.7	2.7	9.0	6.9	6.9	6.6	6.6	9.2	7.6	8.9	7.7	7.3	7.8
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	16.62	15.54	14.45	14.77	14.84	14.32	13.78	13.67	14.00	16.71	16.72	14.59	13.64
Real Mortgage Rate	.62	9.53	8.89	9.13	9.59	8.50	7.49	7.98	3.82	7.85	11.75	9.02	7.59
Assumption Rate	11.78	11.92	12.11	12.06	11.92	11.54	11.35	11.26	10.70	11.00	11.82	11.91	11.16
Seller Take Back Mortgage Rate	12.30	12.40	12.25	12.05	11.85	11.80	11.76	11.60	11.50	11.80	12.33	11.99	11.59
Blended Rate	14.31	13.69	13.06	13.30	13.40	13.12	12.87	12.82	12.23	14.15	14.35	13.22	12.81
Corporate Bond Rate (AAA)	13.75	11.81	10.90	10.47	10.07	10.12	10.11	10.10	11.94	14.17	13.77	10.39	10.09
Government Bond Rate	13.00	10.24	11.43	11.54	11.20	10.56	10.06	9.77	11.51	14.34	12.95	11.18	9.68
Real Long-term Government Bond Rate	7.99	4.23	5.87	5.90	5.94	4.74	3.77	4.08	1.33	5.48	7.97	5.61	3.63
Federal Funds Rate	11.01	9.56	10.30	11.81	12.39	12.22	11.89	10.97	13.36	16.38	12.33	11.68	10.48
3 Month Treasury Bills	9.32	7.46	8.95	10.60	11.20	11.14	10.65	10.20	11.43	14.03	10.50	10.47	9.96
1 Year Treasury Bills	11.84	8.90	10.07	11.67	12.08	11.81	11.20	10.70	12.05	14.78	12.22	11.41	10.49
Commercial Paper Rate	11.15	9.08	9.91	11.67	12.36	12.25	12.10	11.28	12.66	15.33	11.96	11.55	10.90
Rate on Money Market Fund Shares	11.40	9.00	10.30	12.46	13.22	13.14	12.50	11.95	12.89	15.68	12.13	12.28	11.65
Prime Rate	14.72	12.03	11.87	12.85	13.66	14.13	14.26	13.46	15.27	18.87	14.88	13.13	13.05

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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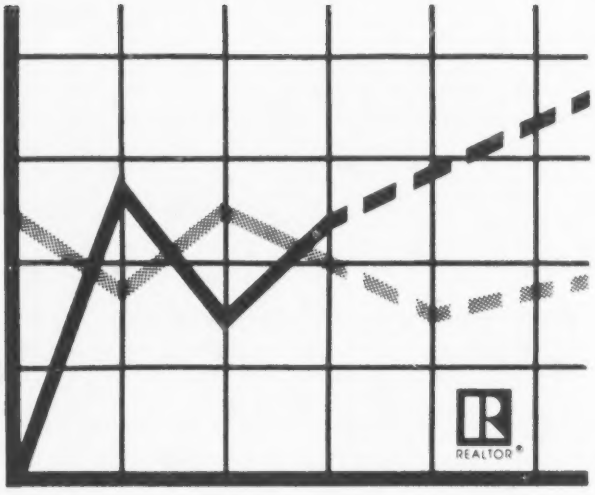
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Led by a decline in housing, investment and foreign trade, overall national output fell by 1.8% last year as the economy endured its deepest post-war recession. However, the recession probably reached its low point in December and a modest upturn should begin by mid-year. GNP should increase just under 1% this year and accelerate to 3.7% in 1984. Improved sales of consumer durables and housing activity are expected to lead the recovery.

Inflation is expected to remain moderate and to average 5.5 to 6% during the next two years, but unemployment will decline only slowly and stay above 10% through 1984.

The biggest threat to the next recovery is the prospect of continuing record government deficits. Prompt action by Congress and the Administration to slow spending by even more than proposed by the President in his State of the Union message is needed to hold down the growing federal "Red Ink." Defense spending targets need to be lowered much more than the $11 billion per year currently proposed, and increases in entitlement programs' spending reduced. This year's scheduled cut in personal income taxes also needs to be deferred if the deficit is to be held under $200 billion. Without these deficit reduction measures, interest rates will start rising again this year as the economy gains strength and the Federal Reserve Board adopts a tougher stance on credit growth.

Mortgage rates are expected to rise briefly to just under 15% by mid-year as the pressure of exploding deficits increases. Fortunately, however, rates should begin to decline again in late 1983, and should average 13.6% in 1984.

Real Estate Markets

The housing recovery has been underway since late summer. Existing home sales in December stood at a 2.18 million unit annual rate, nearly 20% above the cyclical low of 1.82 million which was reached in August. This sounds like a solid recovery, but in previous cycles the prior peak had been regained within five to eight months after the trough. This time, the prior peak will not be regained during the entire 24-month forecast period. Existing home sales are forecast to reach 2.45 million units this year and just over 3 million in 1984.

Home construction markets have recovered further than existing homes already, but further advances will be slow coming. Housing units will be started at a 1.32 million unit rate during the first quarter, and will increase by only 50,000 units during the year. Further progress will also be slow in 1984, with starts totalling 1.5 million units next year.

With interest rates continuing to hold the volume of home sales in check, price appreciation will remain sluggish. Bargains will be most prevalent in the next few months, then price increases should approach the rate of inflation. By the end of the forecast period, home price increases will be modestly above the inflation rate.

While the outlook for residential real estate is guardedly optimistic, commercial and industrial markets will suffer increasingly hard times. Vacancies of commercial and industrial properties have already increased sharply and further increases must be expected as new construction already underway is completed. Moreover, with the utilization of industrial capacity at all-time lows, significant increases in real economic activity are needed before it becomes feasible to construct new production facilities or warehouses. Similarly, the vacant office space must be absorbed before any substantial increases in commercial construction will be undertaken.

Table 1

U.S. ECONOMIC OUTLOOK

FEBRUARY 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual			Forecast	
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1980	1981	1982	1983	1984
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,088	3,101	3,149	3,201	3,271	3,350	3,420	3,505	2,633	2,938	3,058	3,243	3,559
Percent Change	5.8	1.7	6.3	6.8	9.0	10.0	8.6	10.4	8.9	11.6	4.1	6.1	9.8
Percent Change (without inflation)	0.7	-2.5	1.0	1.1	3.6	3.9	2.4	4.6	-0.4	1.9	-1.8	0.9	3.7
Consumption	0.6	5.0	-0.6	0.6	2.9	2.8	1.4	3.9	0.3	1.8	1.0	1.6	2.7
Durables	-5.4	19.9	-4.3	-1.9	10.8	11.7	-1.3	8.8	-6.9	2.2	-0.9	3.5	6.3
Nondurables	1.5	2.6	0.3	1.2	0.6	0.9	2.3	2.4	0.8	1.8	0.8	1.3	1.8
Services	1.7	2.7	-0.2	0.9	2.3	1.6	1.6	3.5	2.4	1.7	1.8	1.4	2.4
Residential Investment	-5.9	24.2	42.7	12.7	10.1	8.6	5.4	12.7	-20.1	-4.9	-10.9	18.5	10.6
Nonresidential Investment	-7.7	-9.0	-18.9	-4.9	5.4	7.6	6.1	9.0	-2.3	3.5	-3.8	-8.3	6.6
Structures	-5.2	-2.3	-30.6	-9.6	-2.2	4.7	4.2	1.2	-1.1	6.3	3.1	-11.3	1.8
Equipment	-8.8	-12.1	-12.6	-2.6	9.0	8.9	6.9	12.5	-2.7	2.4	-6.8	-6.8	8.8
Exports	16.7	-26.9	3.0	4.4	7.2	8.5	-3.9	8.3	8.9	-0.5	-6.9	-4.7	4.5
Imports	4.5	-14.8	-0.5	2.4	6.6	4.8	3.6	3.0	-0.4	7.2	0.6	-0.2	4.0
Government Purchases	8.4	11.3	-4.7	-2.6	2.0	1.3	0.8	4.0	2.2	0.9	1.4	1.3	1.8
Consumption (% of GNP)	64.6	65.8	65.5	65.4	65.3	65.1	65.0	64.9	63.1	63.1	64.9	65.4	64.7
Residential Investment (% of GNP)	2.7	2.8	3.1	3.2	3.2	3.3	3.3	3.3	3.2	3.0	2.7	3.2	3.4
Nonresidential Investment (% of GNP)	11.0	10.8	10.3	10.1	10.2	10.2	10.3	10.4	11.3	11.4	11.2	10.2	10.5
Inventory Change ($ billions)	4.7	-38.5	-12.6	-3.7	-1.4	2.2	12.2	7.1	-10.0	20.4	-21.4	-3.9	12.8
Mfg. Capacity Utilization Rate (%)	70	68	68	68	69	70	71	72	79	78	70	69	73
Auto Sales (millions of units)	7.7	8.7	8.0	7.8	8.2	8.3	8.4	8.4	9.0	8.5	8.0	8.1	8.7
Manufacturing Industrial Production (% change)	-1.1	-9.6	2.5	3.2	8.2	10.0	3.4	9.5	-4.5	2.4	-8.5	0.5	7.6
Common Market	-12.2	0.0	0.8	1.9	2.7	2.1	4.7	-0.1	0.2	-1.5	-1.7	-0.9	2.6
Japan	6.4	-2.5	6.1	5.3	3.7	1.7	2.0	3.4	6.8	3.1	1.1	3.0	3.3
Employment (millions)	99.6	99.1	98.9	99.5	100.1	100.6	101.2	101.9	99.3	100.4	99.5	99.8	102.4
Unemployment Rate (%)	10.0	10.7	11.1	10.9	10.8	10.7	10.6	10.3	7.2	7.6	9.7	10.9	10.2
Disposable Income per Household (average)	27,444	27,696	27,915	28,393	29,238	29,861	30,404	31,054	23,240	25,604	27,156	28,852	31,415
Percent Change -- Year Ago (w/o inflation)	0.0	-0.4	-0.1	-0.3	1.2	2.3	3.1	3.7	-0.9	1.5	0.1	0.8	3.2
Total Taxes per Household (average)	13,162	13,284	13,486	13,632	13,672	13,937	14,330	14,691	11,806	13,186	13,144	13,682	14,913
Percent Change -- Year Ago	-1.5	0.9	4.0	3.6	3.9	4.9	6.3	7.8	8.4	11.7	-0.3	4.1	9.0
Percent of Disposable Income	48.0	48.0	48.3	48.0	46.8	46.7	47.1	47.3	50.8	51.5	48.4	47.4	47.5
Household Debt as Percent of Disposable Income	77.8	77.7	78.0	77.5	76.1	75.4	75.0	74.3	80.7	79.1	78.1	76.8	74.0
Consumer Price Inflation (CPI)	7.6	2.6	5.1	6.8	7.4	5.7	5.7	5.6	13.5	10.3	6.1	5.5	6.0
Gross National Product Inflation (GNP Deflator)	5.0	4.3	5.2	5.7	5.3	5.9	6.1	5.6	9.3	9.4	6.0	5.1	5.8
Personal Consumption Inflation	7.5	4.9	4.9	5.9	5.6	5.3	6.0	5.1	10.3	8.6	5.9	5.4	5.5
Residential Construction Inflation	0.3	0.8	5.3	5.6	6.3	5.7	7.4	6.3	9.4	7.0	2.3	3.4	6.5
Nonresidential Construction Inflation	-1.3	0.0	4.8	5.4	6.4	5.6	7.8	5.9	14.0	10.3	6.0	3.4	6.5
Producers Price Inflation (WPI)	3.7	1.6	4.0	5.1	6.4	6.4	6.1	6.1	14.1	9.1	2.0	3.9	6.2
Compensation per Manhour (% change)	6.4	4.7	6.5	5.9	6.9	6.7	8.9	7.0	10.3	9.6	7.1	6.1	7.4
Productivity (% change)	4.1	2.8	3.0	1.3	1.2	3.1	2.7	2.0	-0.9	1.4	0.2	2.4	2.2
Unit Labor Cost (% change)	2.6	2.1	3.2	4.6	5.6	3.5	6.1	4.9	11.2	8.1	6.9	3.6	5.1
Unit Capital Cost (% change)	8.0	7.3	6.6	5.7	5.0	4.4	4.1	4.0	11.6	10.2	8.1	5.4	4.0
Before Tax Corporate Profits ($ billions)<1>	198	197	198	197	201	210	211	225	252	259	193	201	235
Corporate Tax Liability	61	-	1	60	61	64	64	69	85	81	58	62	72
'Windfall Profits' Tax Receipts	18	16	16	17	17	17	19	19	9	27	17	17	20
Inventory Valuation Adjustment	-10	-13	-12	-15	-17	-17	-18	-18	-43	-25	-9	-15	-19
Capital Consumption Adjustment	-4	1	6	8	10	11	10	9	-18	-17	-5	9	7
After Tax Profits	119	120	121	120	123	128	129	137	158	151	118	123	143
Profits from Current Production (with IVA, CCA)	105	108	115	113	115	121	120	127	97	109	103	116	131
Adjusted for Inflation (82:1 base)	103	105	110	107	107	111	109	113	111	114	102	109	115
Percent Change - Year Ago	-10.0	-7.9	9.1	7.9	3.9	6.4	-0.9	6.3	-17.2	3.0	-10.8	6.8	6.2
Per Unit of Output (% of GNP)	3.4	3.5	3.6	3.5	3.5	3.6	3.5	3.6	3.7	3.7	3.4	3.6	3.7
Effective Corporate Tax Rate (%)<1>	37	37	36	36	36	36	36	36	46	43	37	36	36
Federal Tax Receipts (Unified basis)	597	539	538	758	624	582	598	805	533	620	607	625	702
Federal Expenditures (Unified basis)	742	806	816	826	813	867	902	920	596	698	736	831	922
Surplus or Deficit (Unified basis)	-145	-259	-278	-68	-190	-285	-304	-115	-63	-78	-127	-205	-220
% of GNP	4.7	8.3	8.8	2.1	5.8	8.5	8.9	3.3	3.0	3.8	4.1	6.3	6.2
% of Personal Savings	95.4	200.6	215.7	48.7	112.6	157.7	160.3	57.7	75.7	85.5	92.8	133.7	108.6
% of Total Private Savings	26.5	48.8	51.5	12.3	32.1	46.4	48.3	17.5	18.1	21.8	23.9	35.6	33.2

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 2

REAL ESTATE AND FINANCIAL MARKETS

FEBRUARY 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual			Forecast	
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	1,850	2,077	2,263	2,379	2,509	2,651	2,804	2,979	2,881	2,351	1,939	2,451	3,050
Percent Change - Year Ago	-17.9	8.0	17.0	23.3	35.6	27.7	23.9	25.2	-22.2	-18.4	-17.5	25.8	24.5
Dollar Volume (billions)	151.1	166.1	184.2	196.2	206.1	219.0	233.8	255.5	209.7	184.1	155.9	201.4	262.4
Existing Home Prices - Median ($1000's)	68.5	67.4	69.1	70.6	70.7	71.5	72.4	74.7	62.2	66.4	67.7	70.5	74.9
Percent Change - Year Ago	1.3	1.8	3.5	3.7	3.3	6.1	4.7	5.8	11.7	6.8	2.0	4.1	6.3
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	772	674	666	701	706	689	673	690	588	742	754	690	691
Percent of Household Income	29	25	24	25	25	24	23	23	26	29	28	24	22
New Single-Family Home Sales (thousands)	403	392	449	486	495	560	581	609	545	437	387	497	606
Percent Change - Year Ago	9.3	-2.2	16.6	32.7	22.7	42.7	29.5	25.2	-22.5	-19.8	-11.5	28.6	21.9
New Home Prices - Median ($1000's)	69.6	71.9	72.6	73.5	74.5	75.5	76.8	77.9	64.7	68.8	69.4	74.0	78.7
Percent Change - Year Ago	0.4	3.1	9.4	5.6	7.0	5.0	5.7	6.1	3.1	6.4	0.8	6.7	6.3
New Home Prices--Mean ($1000's, Quality Adjusted)	87.6	90.1	92.3	92.5	92.3	95.4	97.3	98.9	78.5	85.3	88.7	93.1	99.8
Percent Change - Year Ago	2.0	3.2	4.5	4.2	5.4	5.9	5.4	6.9	11.0	8.4	4.0	5.0	7.1
New Mortgage Commitments ($ billions)	57.1	74.4	89.5	93.7	94.2	82.3	86.3	94.2	87.2	60.0	59.5	89.9	109.0
Percent Change - Year Ago	17.8	63.8	53.2	94.6	64.9	10.6	-3.6	0.5	-32.4	-31.2	-0.7	51.1	21.3
Mortgage Debt Outstanding ($ billions)	1,636	1,632	1,649	1,670	1,695	1,717	1,739	1,770	1,419	1,544	1,624	1,683	1,796
Homeowners' Equity ($ billions)	2,237	2,254	2,318	2,355	2,402	2,433	2,470	2,511	2,097	2,208	2,244	2,377	2,535
Housing Inventory (millions)	85.0	85.1	85.3	85.4	85.6	85.8	86.0	86.2	83.8	84.5	84.9	85.5	86.4
Private Housing Starts (thousands)	1,118	1,251	1,323	1,339	1,356	1,368	1,416	1,460	1,292	1,084	1,061	1,346	1,511
Single-Family	650	795	866	884	907	914	949	974	852	705	661	893	1,009
Multi-Family	468	456	457	455	449	454	467	486	440	379	400	454	502
Subsidized	136	113	75	57	43	33	17	10	173	115	135	52	10
Mobile Home Shipments (thousands)	234	222	239	250	249	254	259	270	223	240	237	248	279
Rental Vacancy Rate (%)	5.3	5.5	5.2	5.1	5.2	5.2	5.1	5.2	5.4	5.0	5.2	5.2	5.1
Unsold New Homes (% of sales)	64.2	46.8	59.1	64.9	67.8	68.0	69.0	68.1	68.4	75.6	64.7	64.9	66.1
Office Vacancy Rate (%)<1>	8.9	10.3	10.7	11.0	10.8	10.5	10.0	9.4	3.7	4.3	8.0	10.8	9.6
Industrial Vacancy Rate (%)<1>	4.6	4.8	5.2	5.5	5.4	5.4	5.2	5.1	3.5	3.7	4.4	5.4	4.9
New Commercial Building Construction (% Ch Value)	-8.9	-3.2	-33.8	1.5	10.4	16.9	16.5	7.2	21.8	13.9	8.4	-8.7	11.5
New Industrial Building Construction (% Ch Value)	-12.8	16.2	-10.3	-16.0	-13.5	-10.3	-3.2	3.3	-6.8	22.0	0.1	-6.8	-4.2
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.9	5.8	5.7	6.1	7.1	7.5	7.7	7.9	5.8	6.4	6.5	6.6	7.0
Money Supply (M1b) (% change)	3.5	17.1	5.8	1.2	7.4	6.5	2.2	3.8	6.3	7.0	6.5	6.7	4.7
Money Supply (M2) (% change)	10.1	9.3	7.3	7.4	9.3	11.1	6.4	9.0	8.3	9.8	9.8	8.7	9.2
Total Time and Savings Deposits (% change)	10.7	4.6	8.2	7.4	8.2	8.5	7.2	3.2	7.6	8.9	7.8	7.9	8.2
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	16.81	14.84	14.24	14.72	14.79	14.25	13.72	13.62	14.00	16.71	16.59	14.50	13.59
Real Mortgage Rate	11.80	10.51	9.00	9.03	9.54	8.38	7.65	8.06	3.82	7.85	12.04	8.99	7.62
Assumption Rate	11.78	11.92	12.11	12.06	11.92	11.54	11.35	11.26	10.70	11.00	11.82	11.91	11.16
Seller Take Back Mortgage Rate	12.30	12.50	12.25	12.05	11.85	11.80	11.76	11.60	11.50	11.80	12.35	11.99	11.59
Blended Rate	14.42	13.25	12.93	13.27	13.37	13.08	12.83	12.79	12.23	14.15	14.27	13.16	12.78
Corporate Bond Rate (AAA)	13.75	11.88	11.69	11.54	11.34	11.02	10.76	10.56	11.94	14.17	13.79	11.40	10.51
Government Bond Rate	13.00	10.31	10.42	10.98	10.81	10.25	10.08	9.86	11.51	14.34	12.96	10.61	9.70
Real Long-term Government Bond Rate	7.99	5.99	5.19	5.29	5.55	4.38	4.01	4.30	1.33	5.48	8.41	5.10	3.72
Federal Funds Rate	11.01	9.29	9.72	11.74	11.94	11.90	11.97	11.52	13.36	16.38	12.26	11.32	10.98
3 Month Treasury Bills	9.32	7.91	8.39	9.99	10.48	10.36	10.45	10.25	11.43	14.03	10.61	9.81	9.90
1 Year Treasury Bills	11.84	9.13	9.83	11.40	11.56	11.19	11.11	10.82	12.05	14.78	12.28	11.00	10.49
Commercial Paper Rate	11.15	8.80	9.56	11.54	12.14	11.98	12.06	11.81	12.66	15.33	11.89	11.30	11.36
Rate on Money Market Fund Shares	11.40	8.94	9.81	11.83	12.31	12.16	12.26	12.01	12.89	15.68	12.12	11.53	11.55
Prime Rate	14.72	11.96	10.99	12.27	13.05	13.40	13.87	13.39	15.27	18.87	14.86	12.43	13.04

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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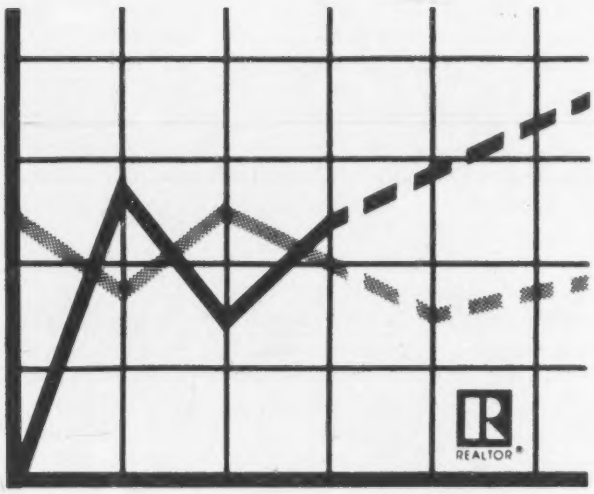
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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March 1983

U.S. ECONOMIC AND REAL ESTATE OUTLOOK

The economy has apparently begun to recover from the deepest recession of the post-war period. While the data indicates substantial improvement already, an exceptionally mild January must be credited with part of the improvement. The next few months should continue to show improvements but at a more modest pace, less than the historical growth following a recession. Federal deficits in excess of $200 billion annually--during at least the next three years--will siphon funds out of business, housing and consumer investment, and cause interest rates above inflation to remain stubbornly high.

Led by gains in residential investment and auto sales, Gross National Product (GNP) is expected to grow about 2 percent in 1983 after adjusting for inflation and by nearly 4 percent in 1984. This increase in real output will be accomplished in large part through increased productivity. Employment will grow only modestly and the unemployment rate will be slow in dropping below 10 percent.

Inflation, sharply reduced by the deep recession, should remain moderate over the next two years, although on an increasing trend. The Consumer Price Index (CPI) is expected to rise about 3-1/2 percent in 1983, about 5-1/2 percent in 1984 and climb above 6 percent in 1985.

Lower inflation is lowering interest rates. Government corporate and mortgage interest rates should trend downward both before and after adjusting for inflation by about 100 basis points. Short-term rates should decline until summer and may then trend upward because of massive deficit financing and increasing demand for business, housing, and consumer credit.

Nearly one percentage point lower inflation and one-half percentage economic faster growth should come as a result of $5 to $8 declines in the price of crude oil.

Real Estate Markets

Home sales and housing construction growth set new records in January. The January 2.61 million unit annual sales rate for existing homes was 40 percent above the cyclical low of 1.86 million units last August. Housing starts doubled their cyclical low. Improvement in the months ahead should continue or at worst plateau. One-third of the nation's households in our latest survey, double the percent last summer, expressed the feeling that it is "worth another look" or in the survey language "now is a good time to buy a home."

The rapid growth of sales is faster than the growth of the supply of housing and housing prices can be expected to rise faster than overall inflation this spring and for the next few years, even though they have increased only 2.1 percent during the last 12 months.

Nonresidential real estate markets will show improvement later in 1983 and during 1984. Office vacancies are high and under utilization manufacturing capacity is high.

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Table 1

U.S. ECONOMIC OUTLOOK

MARCH 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1981	1982	1983	1984	1985
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,088	3,101	3,162	3,223	3,291	3,367	3,447	3,529	2,938	3,058	3,261	3,570	3,923
Percent Change	5.8	1.7	8.0	8.0	8.7	9.6	9.8	9.9	11.6	4.1	6.6	9.5	9.9
Percent Change (without inflation)	0.7	-1.9	3.4	2.7	3.8	3.9	3.7	4.2	1.9	-1.8	1.9	3.8	3.7
Consumption	0.6	4.8	0.8	2.8	3.4	3.7	2.8	3.5	1.8	1.0	2.5	3.2	3.1
Durables	-5.4	19.4	3.2	9.8	10.7	12.0	4.2	6.7	2.2	-1.0	7.6	7.4	3.5
Nondurables	1.5	1.8	0.5	0.7	1.1	0.9	2.6	3.1	1.8	0.7	1.2	2.1	2.2
Services	1.7	3.0	0.3	2.2	2.9	3.3	2.5	2.7	1.7	1.8	2.0	2.8	3.7
Residential Investment	-5.9	34.0	56.9	28.1	13.4	7.1	8.2	10.5	-4.9	-10.4	26.4	9.2	8.0
Nonresidential Investment	-7.7	-8.1	-9.1	-4.1	2.3	4.2	7.2	8.1	3.5	-3.8	-5.8	5.4	7.5
Structures	-5.2	-6.0	-8.1	-7.7	-6.3	-3.8	1.7	2.4	6.3	2.9	-6.2	-0.6	4.2
Equipment	-8.8	-9.0	-9.7	-2.3	6.7	8.1	9.7	10.6	2.4	-6.6	-5.7	8.2	8.9
Exports	-16.7	-28.8	-2.7	-1.0	3.3	3.1	3.6	3.6	-0.5	-7.0	-8.3	3.0	4.8
Imports	4.5	-23.6	-1.3	5.1	6.9	6.3	4.6	4.1	7.2	0.0	-1.8	4.8	4.0
Government Purchases	8.4	11.6	-3.5	-3.3	2.2	1.8	1.7	3.5	0.9	1.4	1.6	2.0	2.4
Consumption (% of GNP)	64.6	65.6	65.2	65.2	65.2	65.1	65.0	64.9	63.1	64.8	65.2	64.8	64.4
Residential Investment (% of GNP)	2.7	2.9	3.2	3.4	3.5	3.5	3.5	3.6	3.0	2.7	3.4	3.6	3.7
Nonresidential Investment (% of GNP)	11.0	10.9	10.5	10.3	10.3	10.3	10.4	10.5	11.4	11.2	10.4	10.5	10.9
Inventory Change ($ billions)	4.7	-44.2	-14.2	-0.2	6.4	12.4	17.8	19.1	20.4	-22.8	1.1	20.7	24.2
Mfg. Capacity Utilization Rate (%)	70	68	68	69	70	71	72	73	78	70	69	73	76
Auto Sales (millions of units)	7.8	8.7	8.4	8.7	9.1	9.6	9.7	9.9	8.5	8.0	8.9	10.0	10.2
Manufacturing Industrial Production (% change)	-1.1	-9.3	4.8	6.9	7.5	7.8	5.8	7.7	2.4	-8.5	1.6	6.8	5.5
Common Market	-14.5	0.5	1.2	2.6	2.8	1.6	5.7	2.3	-1.5	-1.9	-0.9	3.0	2.5
Japan	6.4	-2.4	6.2	5.5	3.9	1.8	2.3	3.3	3.1	1.1	3.1	3.4	4.5
Employment (millions)	99.6	99.1	99.3	100.1	100.7	101.3	102.1	102.7	100.4	99.5	100.4	103.1	105.9
Unemployment Rate (%)	10.0	10.7	10.4	10.3	10.2	10.1	9.9	9.7	7.6	9.7	10.3	9.6	8.8
Disposable Income per Household (average)	27,444	27,741	27,971	28,368	29,035	29,657	30,282	30,907	25,604	27,167	28,758	31,179	33,887
Percent Change -- Year Ago (w/o inflation)	0.0	-0.1	1.0	0.9	1.9	2.8	3.1	3.4	1.5	0.2	1.7	3.0	2.7
Total Taxes per Household (average)	13,162	13,246	13,483	13,680	13,709	14,003	14,417	14,746	13,186	13,134	13,734	14,912	16,290
Percent Change -- Year Ago	-1.5	0.6	3.9	4.0	4.6	5.7	6.9	7.8	11.7	-0.4	4.6	8.6	9.2
Percent of Disposable Income	48.0	47.7	48.2	48.2	47.4	47.2	47.6	47.7	51.5	48.4	47.8	47.8	48.1
Household Debt as Percent of Disposable Income	77.8	77.6	78.0	77.9	77.3	77.0	76.8	76.7	79.1	78.1	77.5	76.8	76.8
Consumer Price Inflation (CPI)	7.8	2.0	0.6	3.4	5.4	5.6	5.9	5.5	10.3	6.2	3.4	5.4	6.0
Gross National Product Inflation (GNP Deflator)	5.0	3.7	4.5	5.1	4.7	5.5	5.9	5.4	9.4	5.9	4.6	5.5	6.1
Personal Consumption Inflation	7.5	4.5	1.7	3.9	5.3	5.1	5.7	5.2	8.6	5.9	4.1	5.3	5.8
Residential Construction Inflation	0.3	-7.6	5.3	5.9	6.2	5.9	7.4	6.4	7.0	1.7	1.8	6.5	7.0
Nonresidential Construction Inflation	-1.3	0.3	3.2	4.0	5.5	5.8	7.8	6.1	10.3	6.0	2.8	6.3	7.0
Producers Price Inflation (WPI)	3.5	1.8	-2.3	-0.7	6.3	6.7	6.1	6.4	9.1	2.0	1.2	5.9	7.4
Compensation per Manhour (% change)	6.4	6.1	6.6	6.1	6.3	6.2	8.5	6.9	9.6	7.2	6.3	7.1	7.4
Productivity (% change)	3.7	2.4	1.0	1.8	2.3	2.3	2.2	2.1	1.4	0.1	2.0	2.1	1.6
Unit Labor Cost (% change)	3.2	3.1	5.8	4.3	3.9	3.9	6.2	4.6	8.1	7.1	4.3	4.8	5.7
Unit Capital Cost (% change)	8.0	7.3	6.6	5.7	4.9	4.3	3.9	3.8	10.2	8.1	5.4	3.8	4.0
Before Tax Corporate Profits ($ billions)<1>	198	191	196	199	208	220	226	237	259	191	206	241	280
Corporate Tax Liability	61	58	60	62	65	69	70	74	81	58	64	75	84
'Windfall Profits' Tax Receipts	18	16	15	11	11	11	11	12	27	17	12	11	14
Inventory Valuation Adjustment	-10	-13	-2	-2	-10	-19	-17	-18	-25	-9	-8	-19	-28
Capital Consumption Adjustment	-4	2	6	9	11	12	11	9	-17	-5	9	8	3
After Tax Profits	119	117	121	126	132	140	144	152	151	117	130	155	181
Profits from Current Production (with IVA, CCA)	105	106	124	133	133	132	138	143	109	103	130	145	156
Adjusted for Inflation (82:1 base)	103	102	119	125	124	122	125	128	114	101	123	129	132
Percent Change - Year Ago	-10.0	-9.8	18.5	26.7	20.5	18.9	5.2	2.5	3.0	-11.3	21.1	5.1	2.2
Per Unit of Output (% of GNP)	3.4	3.4	3.9	4.1	4.0	3.9	4.0	4.1	3.7	3.4	4.0	4.0	4.0
Effective Corporate Tax Rate (%)<1>	37	36	33	33	34	35	34	35	43	37	34	35	35
Federal Tax Receipts (Unified basis)	597	548	454	799	608	529	528	884	620	609	598	680	777
Federal Expenditures (Unified basis)	742	821	810	812	780	842	883	895	698	740	811	893	984
Surplus or Deficit (Unified basis)	-145	-273	-356	-13	-172	-313	-355	-11	-78	-131	-213	-212	-208
% of GNP	4.7	8.8	11.3	0.4	5.2	9.3	10.3	0.3	3.8	4.2	6.5	5.9	5.3
% of Personal Savings	95.4	201.5	244.9	8.7	106.3	184.1	197.8	5.7	85.5	93.0	136.0	113.3	94.9
% of Total Private Savings	26.5	51.3	63.1	2.2	28.7	51.1	55.9	1.6	21.8	24.5	36.3	32.2	28.2

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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Table 2

REAL ESTATE AND FINANCIAL MARKETS

MARCH 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1981	1982	1983	1984	1985
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	1,893	2,133	2,502	2,598	2,692	2,864	3,001	3,095	2,419	1,990	2,664	3,189	3,543
Percent Change - Year Ago	-18.2	6.7	27.0	33.0	42.2	34.3	19.9	19.1	-18.7	-17.8	34.0	19.7	11.1
Dollar Volume (billions)	154.6	170.9	202.2	212.7	220.3	234.5	249.0	264.5	189.4	160.2	217.4	272.9	325.5
Existing Home Prices - Median ($1000's)	68.5	67.4	68.6	70.0	70.4	70.8	72.0	74.4	66.4	67.8	69.9	74.5	80.5
Percent Change - Year Ago	1.3	1.8	2.7	2.8	2.8	5.1	5.1	6.3	6.8	2.1	3.3	6.8	8.0
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	772	674	636	620	613	609	619	638	742	754	619	641	721
Percent of Household Income	29	25	23	22	22	21	21	21	29	28	22	21	22
New Single-Family Home Sales (thousands)	401	525	573	586	555	575	594	619	437	411	572	625	671
Percent Change - Year Ago	8.8	31.0	48.8	60.0	38.2	9.5	3.6	5.6	-19.8	-5.7	36.4	9.2	7.4
New Home Prices - Median ($1000's)	69.6	71.7	72.5	73.4	74.4	75.5	76.8	78.0	68.9	69.3	74.0	78.6	83.8
Percent Change - Year Ago	0.4	2.8	9.2	5.5	7.0	5.3	6.0	6.3	6.4	0.6	6.7	6.2	6.7
New Home Prices--Mean ($1000's, Quality Adjusted)	87.6	86.3	91.4	92.2	92.0	91.8	93.5	95.8	85.5	87.8	91.9	95.7	101.7
Percent Change - Year Ago	2.0	-1.1	3.5	3.8	5.0	6.4	2.3	3.9	8.8	2.7	4.7	4.1	6.3
New Mortgage Commitments ($ billions)	57.1	90.3	101.7	117.3	128.2	121.0	132.1	139.8	60.0	63.5	117.1	147.2	173.6
Percent Change - Year Ago	17.8	98.7	74.1	143.6	124.6	34.0	29.9	19.2	-31.2	5.9	84.4	25.8	18.0
Mortgage Debt Outstanding ($ billions)	1,636	1,632	1,651	1,673	1,699	1,725	1,755	1,794	1,544	1,624	1,687	1,823	2,045
Homeowners' Equity ($ billions)	2,236	2,251	2,314	2,351	2,397	2,429	2,466	2,505	2,208	2,243	2,372	2,525	2,698
Housing Inventory (millions)	85.0	85.1	85.3	85.5	85.7	86.0	86.2	86.5	84.5	84.9	85.6	86.6	87.7
Private Housing Starts (thousands)	1,122	1,255	1,502	1,458	1,475	1,514	1,563	1,589	1,084	1,061	1,487	1,559	1,700
Single-Family	653	807	975	938	944	970	1,006	1,026	705	662	957	1,002	1,136
Multi-Family	469	448	527	520	531	544	557	563	379	399	531	556	565
Subsidized	136	113	75	57	43	33	17	10	115	135	52	10	7
Mobile Home Shipments (thousands)	234	237	254	270	281	291	301	308	240	241	274	310	331
Rental Vacancy Rate (%)	5.3	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.0	5.3	5.4	5.3	5.3
Unsold New Homes (% of sales)	64.5	47.3	50.5	106.9	55.2	55.4	58.2	59.3	75.6	64.8	67.0	58.4	59.2
Office Vacancy Rate (%)<1>	8.9	10.3	10.5	10.6	10.5	10.4	10.2	9.8	4.3	7.9	10.5	9.7	8.7
Industrial Vacancy Rate (%)<1>	4.6	4.8	5.2	5.5	5.4	5.4	5.3	5.3	3.7	4.4	5.4	5.2	4.6
New Commercial Building Construction (% Ch Value)	-8.9	-0.4	-5.8	-3.4	2.0	7.7	14.1	10.9	13.9	8.5	-2.2	8.8	10.7
New Industrial Building Construction (% Ch Value)	-12.8	-13.7	-10.9	-10.8	-8.1	-3.1	-2.8	0.2	22.0	-1.7	-10.0	-3.2	7.1
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.9	6.1	6.5	6.5	6.9	7.1	7.3	7.4	6.4	6.6	6.7	7.4	7.9
Money Supply (M1b) (% change)	6.3	13.9	10.3	5.7	7.2	6.5	3.9	4.4	7.0	6.6	8.5	5.3	6.0
Money Supply (M2) (% change)	11.3	9.5	19.7	9.1	8.8	10.0	8.6	10.0	9.3	7.9	11.9	9.9	10.1
Total Time and Savings Deposits (% change)	9.2	3.5	38.1	4.9	7.0	9.8	9.5	10.6	8.8	6.7	13.5	9.5	11.3
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	16.81	14.84	13.67	13.01	12.76	12.60	12.59	12.57	16.71	16.59	13.01	12.60	13.18
Real Mortgage Rate	11.80	11.12	9.17	7.89	8.10	7.08	6.72	7.18	7.85	12.19	8.06	6.88	7.07
Assumption Rate	11.78	11.92	12.11	12.06	11.92	11.54	11.35	11.26	11.00	11.82	11.91	11.16	11.04
Seller Take Back Mortgage Rate	12.30	12.50	12.25	12.05	11.85	11.80	11.70	11.60	11.80	12.35	11.99	11.57	11.45
Blended Rate	14.42	13.25	12.58	12.20	12.10	12.05	12.13	12.13	14.15	14.27	12.23	12.16	11.74
Corporate Bond Rate (AAA)	13.75	11.88	12.10	11.63	11.19	10.83	10.53	10.28	14.17	13.79	11.44	10.12	9.97
Government Bond Rate	13.00	10.31	9.95	9.19	8.54	8.88	9.07	8.93	14.34	12.96	9.24	[illegible]	32
Real Long-term Government Bond Rate	7.99	6.60	5.44	4.07	4.27	3.36	3.19	3.54	5.48	8.56	4.29	[illegible]	2
Federal Funds Rate	11.01	9.29	8.31	7.91	7.67	8.13	9.07	9.09	16.38	12.26	8.01	[illegible]	.20
3 Month Treasury Bills	9.32	7.91	7.83	7.31	7.34	7.57	8.29	8.38	14.03	10.61	7.51	8.26	9.27
1 Year Treasury Bills	11.84	9.13	8.81	8.36	8.38	8.55	9.16	9.17	14.78	12.28	8.53	9.03	9.89
Commercial Paper Rate	11.15	8.80	8.27	8.07	8.06	8.43	9.31	9.44	15.33	11.89	8.21	9.28	10.56
Rate on Money Market Fund Shares	11.40	8.94	8.33	8.14	8.12	8.51	9.43	9.57	15.68	12.12	8.27	9.42	10.74
Prime Rate	14.72	11.96	10.88	10.24	10.13	10.47	11.36	11.32	18.87	14.86	10.43	11.17	11.83

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

The strong increase in residential investment and automobile sales have combined with falling world oil prices to improve the prospects of noninflationary economic recovery. However, enormous federal budget deficits for the forseeable future will keep real interest rates high by historical standards and dampen recovery to only about two-thirds the average recovery of the last 30 years.

After adjusting for inflation Gross National Product (GNP) is expected to rise at an accelerating rate over the course of 1983. By the fourth quarter real GNP should be growing at an annual rate of just over 4 percent. While this is good news it is also clear that this expected path of recovery will be modest in comparison to recoveries from past recessions.

Table 1

Quarterly Percent Change in Real GNP During the Initial Stages of Recovery

	83:1	83:2	83:3	83:4	84:1	84:2	Average for First 1-1/2 Years
	3.2%	3.2%	4.7%	4.1%	4.0%	4.1%	3.9%
	75:2	75:3	75:4	76:1	76:2	76:3	
	4.9%	9.2%	3.6%	9.1%	2.7%	2.3%	5.3%
	71.1	71.2	71.3	71.4	72:1	72:2	
	10.3%	2.0%	3.2%	3.5%	7.9%	7.6%	5.8%
	61:1	61:2	61:3	61:4	62:1	62:2	
	3.1%	6.9%	5.2%	10.6%	5.3%	4.7%	6.0%
Average of Three Preceding Recoveries	6.1%	6.0%	4.0%	7.7%	5.3%	4.9%	5.7%

This recovery over the economy's dismal performance in 1982 is being led by residential investment which is expected to rise by nearly 30 percent from 1982 to 1983. Consumer spending should increase 2.6 percent due primarily to a nearly 15 percent increase in automobile purchases. Exports, which have been curtailed by the excessive strength of the dollar, should begin to grow by the end of 1983 and add to the recovery. Business investment in new equipment should improve during the second half of 1983. Investment in commercial structures should show improvement during 1984 to continue the recovery. The delay in investment in structures is due to substantial underutilization of existing industrial capacity and depressed profit margins in nonfinancial industries. The recovery should continue into 1984 and 1985 as real GNP increases modestly by 3-1/4 to 4 percent.

Inflation has been temporarily ended by the recession, the decline in oil prices, and low agricultural prices and promises to increase at only a moderate pace as the economy continues to modestly recover during 1983 and 1984. For all of 1983 the Consumer Price Index (CPI) should rise just 3.2 percent--the lowest annual inflation rate since 1967. However, the inflation rate can be expected to rise to 5.1 percent in 1984 and 5.8 percent in 1985, with a greater risk of higher prices than lower prices during these two years in the future.

The much improved inflation outlook continues to promote gradual declines in interest rates. In spite of recent increases, short-term rates can be expected to trend downward modestly during the next six months and then may increase as the recovery accelerates and the Federal deficit syphons private savings away from increasing needs for private investment. Long-term rates, more directly tied to investors expectations of inflation, could fall another one percentage point through 1983. However, due primarily to the enormous burden that the federal deficit places on credit markets, inflation-adjusted interest rates will remain extremely high by historical standards and limit investment.

The upturn of the economy is producing clear signs of improvement in the employment situation. The established trend in initial claims for unemployment insurance is downward, even in some hard pressed primary manufacturing industries. However, as is traditionally the case during the initial stages of a recovery, total employment will increase only 1.9 percent over 1983 as increased output is realized primarily through increased productivity among existing workers. The unemployment rate could remain above 10 percent until the fourth quarter of the year. During 1984 total employment should increase by 2.6 percent and the unemployment rate should drop to about 9 percent.

Real Estate Markets

The decline of mortgage interest rates from the 17 percent range to the 13 percent range has led to strong increases in both housing starts and existing home sales. Starts surged to a seasonally adjusted annual rate of 1,756,000 units in February, 93 percent above the previous trough in June 1982. The largest increase in starts has occured in the Northeast, followed by the South. While resales dipped slightly in February due to inordinately severe weather, the February seasonally adjusted annual rate of 2,470,000 units was 33 percent above the previous trough of August 1982. Interestingly, the regional differences in the recovery of resales is almost the exact opposite of that of starts.

Table 2

Percentage Increase from Trough in Total Housing Starts and Existing Single-family Home Sales for the United States and Each Region

	U.S.	Northeast	North Central	South	West
Increase in Starts since June 82	93%	163%	58%	96%	79%
Increase in Resales since August 82	33%	21%	56%	27%	27%

The current rate of starts may not be sustained unless mortgage rates decline more rapidly than is currently expected. Only 1.6 million new housing units may be started during 1983--50 percent above the 1982 level. In both 1984 and 1985 starts could reacn 1.7 million units. Resales should grow through 1983. For all of 1983 resales are expected to increase 37 percent above the 1982 level to 2.7 million units and could grow above 3.5 million units during 1985.

The data suggest that for the nation as a whole the recovery of housing markets is resulting in an acceleration in the rate of price appreciation. The January and February median sales prices of new single-family homes were 12.1 percent and 14.3 percent, respectively, above the median price of twelve months earlier. This is substantially higher then the rates of appreciation realized during the last six months of 1982. For 1983 as a whole the median price of new single-family homes should rise just over 6 percent, about 3 percentage points faster than inflation. In 1984 and 1985 the strong underlying demand for home ownership will keep the rate of price appreciation of both new and existing single-family homes above the inflation rate.

The recovery of new housing construction will induce increases in construction of new commercial space such as shopping centers. The value of private commercial construction put in place should increase 16 percent in 1983 followed by increases of 12.4 percent in 1984 and 1.4 percent in 1985. Construction of new industrial buildings will continue to decline through 1983 and not really recover until late 1984 and 1985 when existing industrial capacity is more fully utilized and the business financial position has improved.

THE LONG-TERM BEHAVIOR OF INTEREST RATES

Over the past 20 years there have been major changes in both the level and the variability of interest rates. As shown in Table 3, since the early 1960s both long-term interest rates, such as mortgage rates, and short-term interest rates, such as the rate on short-term business loans or the prime rate, have been on an upward trend interrupted only by periodic downturns in the econ For example, from 1963 to 1967 the conventional mortgage interest rate averag 3 percent and on average changed just 0.07 percentage points from one quarter to the next. From 1968 to 1972 the average mortgage interest rate rose 1.73 percentage points to 7.76 percent and then increased another 1.13 percentage points during the 1973 to 1977 period. In marked contrast, from 1978 to 1982 the conventional mortgage rate averaged 13.65 percent--an increase of 4.76 percentage points--and on average change 0.85 percentage points between quarters. In fact, during the latter half of 19 interest rates in general reached peaks not seen in this country since the economi havoc of the post Civil War period.

Table 3

Average Levels and Variability of Selected Nominal Interest Rates

	1963-1967	1968-1972	1973-1977	1978-1982
Average Levels				
Mortgage Rate	6.03%	7.76%	8.89%	13.65%
AAA Corporate Bond Rate	4.76	7.17	8.26	11.65
Prime Rate	4.96	6.62	8.07	14.14
3-month Treasury Bill	3.96	5.36	6.18	10.67
Average Quarter-to-Quarter Absolute Change				
Mortgage Rate	.07	.19	.22	.85
AAA Corporate Bond Rate	.12	.22	.18	.64
Prime Rate	.11	.44	.78	1.58
3-month Treasury Bill	.26	.55	.62	1.33
Spread Between Maximum and Minimum				
Mortgage Rate	.82	1.66	2.28	8.75
AAA Corporate Bond Rate	1.83	2.14	1.80	6.56
Prime Rate	1.50	3.61	5.88	12.34
3-month Treasury Bill	2.29	3.91	3.69	8.66

Real interest rates, or the nominal rate less the rate of inflation, declined gradually over the 1963 to 1977 period but then rose dramatically during the 1978 to 1982 period. Real long-term interest rates rose to nearly three times their average level during the 1973 to 1977 period. Currently, real interest rates are even higher and this is the primary reason for a slow recovery.

Table 4

Average Levels of Selected Real Interest Rates[1/]

	1963-1967	1968-1972	1973-1977	1978-1982	1st Quarter 1983
Mortgage Rate	3.7%	2.9%	1.9%	5.5%	8.6%
AAA Corporate Bond Rate	2.5	2.4	1.3	3.5	7.1
Prime Rate	2.7	1.8	1.1	6.0	5.7
3-Month Treasury Bill	1.7	0.5	-0.8	2.5	2.8

[1/] Real interest rates are defined as nominal rates minus the rate of inflation as measured by the annual percent change in the GNP deflator.

The level of interest rates influences the ability of consumers to purchase durable goods such as housing and automobiles and so influences the current level of

production of those goods. Because businesses frequently borrow to finance inventories of raw materials and finished products, the level of interest rates influences the price they must charge. High interest rates slow the pace of capital formation. Investment in plant and equipment, residential structures, and education and training improves our productivity, the American standard of living, and the quality of life.

Not suprisingly, the sharp increase in real interest rates during the 1978 to 1982 period has been associated with an equally sharp deterioration of the performance of the U.S. economy both in comparison to our own past performance and the current performance of other major industrial countries. As shown in Table 5, the average rates of growth of real GNP, real disposable personal income per household, and labor productivity all slowed dramatically during this period. Table 6 shows that during the 1978 to 1982 period the U.S. ranked fifth in terms of the average annual rate of growth of real GNP among seven major industrial countries.

Table 5

Average Annual Growth Rates of Real Gross National Product (GNP), Real Disposable Personal Income Per Capita, and Labor Productivity

	1963-1967	1968-1972	1973-1977	1978-1982
Real GNP	4.8%	3.3%	3.0%	1.5%
Real Disposable Personal Income Per Household	3.8	2.6	2.1	1.2
Labor Productivity	2.9	2.1	1.5	0.0

Table 6

Average Annual Growth Rates of Real GNP for Selected Major Industrial Countries: 1978-1982

Japan	4.06%
Italy	2.44
France	2.12
West Germany	1.62
United States	1.60
Canada	0.94
United Kingdom	0.54

Source: Economic Report of the President, 1983, Table B-109, p. 285.

Interest rates allocate scarce savings from individuals, businesses, and state and local governments among competing uses. Savings, expressed as a percent of GNP, have grown very little over the past twenty years and have remained constant over the past ten years. Savings by individuals declined substantially during the 1978 to 1982 period since, after deducting taxes and then accounting for the loss of purchasing power due to inflation, yields on savings available to most individuals during this period were negative.

Table 7

Savings as a Percent of GNP

	1963-1967	1968-1972	1973-1977	1978-1982
Personal Saving	4.7	5.0	5.4	4.2
Business Saving	12.1	11.1	11.8	12.8
State and Local Government Surplus--NIA Basis	0.0	0.3	0.9	1.2
Total	16.8	16.4	18.1	18.2

The demand for savings has increased substantially, particularly over the past ten years. The proportion of total funds devoted to financing the federal deficit has nearly tripled since the mid-1960s. Consequently, the share of savings devoted to home mortgages has not grown to meet the increased demographic demand for housing while the share of savings raised by business has declined.

Table 8

Percent of Loanable Funds Raised in Domestic Credit Markets by Sector

	1963-1967	1968-1972	1973-1977	1978-1982
U.S. Government	7.8	9.3	18.4	20.3
State and Local Governments	9.6	10.4	6.2	6.6
Total Government	17.4	19.7	24.6	26.9
Households	37.8	32.1	32.9	33.0
Home Mortgages	22.3	18.6	22.6	22.9
Consumer Credit	12.0	9.8	8.6	6.9
Other[1/]	3.5	3.7	1.7	3.2
Nonfinancial Business	40.4	45.1	37.0	33.7
Farm	4.2	2.9	4.1	3.8
Nonfarm, Noncorporate	9.2	13.1	9.0	8.3
Corporate	26.9	29.2	23.9	21.6
Debt	25.8	24.6	20.8	21.8
Equity	1.1	4.5	3.1	-0.1
Foreign	4.4	3.1	5.5	6.3
Total	100.0	100.0	100.0	100.0
Total as % of the GNP	10.2	12.1	15.2	15.6
Private	8.4	9.7	11.5	11.4
Government	1.8	2.4	3.7	4.2

[1/] Security credit and policy loans.

The relationship between the governments demand for savings as a percent of personal savings and real long-term interest rates is clearly seen from data on other industrial countries. For fiscal year (FY) 1982 the deficit of the U.S. government absorbed 78 percent of personal savings and resulted in real long-term rates of 8 to 10 percent. In contrast, in Japan, which enjoys the highest rate of real economic growth, the FY 1982 deficit absorbed just 18.3 percent of personal savings while real interest rates were in the 2 to 3 percent range.

Table 9

Relationship Between Central Government Demand for Loanable Funds and Real Interest Rates in Major Industrial Countries

Country	FY 82 Deficit[1] ($US Billions)	% of Personal[2] Savings in 1982	Real Long-term Interest Rates in Private Sector
United States	110	78	8 to 10
United Kingdom	15.6	62.5	5
West Germany	23.2	37.8	3.0
France	11.6	19.0	3.0
Japan	31.8	18.3	2 to 3

1/ Federal deficit for U.S. (on and off budget), general government current account deficits for calendar 1982 for all other countries.

2/ 1982 personal savings figures for all countries other than the U.S. supplied by Wharton Econometric Forecasting Associates.

The sudden rise in real interest rates in the 1978 to 1982 period was the result of the simultaneous growth in the size of the federal deficit and reduction of injections of new money into the economy by the Federal Reserve System (FED). Beginning in October 1979 the FED announced that it would attempt to limit the growth of the money supply to noninflationary levels. Prior to that time the FED had been making progressively larger increases in the money supply and so dampening the upward pressure on interest rates caused by the borrowing of the federal government. However, the increases in the money supply allowed inflation to increase to double-digit levels. Eventually, attempts by the FED to lower interest rates by increasing the money supply no longer worked because the credit markets had learned to regard such increases as the precursor of higher rates of inflation. As the FED reduced the amount of new money it injected into the economy, interest rates shot up, plunging the economy into the longest and deepest recession in the post-WW II era.

Table 10

U.S. ECONOMIC OUTLOOK

APRIL 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1981	1982	1983	1984	1985
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,088	3,108	3,171	3,238	3,312	3,386	3,463	3,543	2,938	3,059	3,277	3,577	3,902
Percent Change	5.8	2.6	8.3	8.8	9.4	9.3	9.4	9.5	11.6	4.1	7.1	9.2	9.1
Percent Change (without inflation)	0.7	-1.0	3.2	3.2	4.7	4.1	4.0	4.1	1.9	-1.7	2.3	3.9	3.3
Consumption	-0.6	4.5	1.6	1.9	4.2	4.1	3.8	3.1	1.8	1.0	2.6	3.4	3.0
Durables	-5.4	20.2	3.1	5.7	13.4	13.2	10.1	7.5	2.2	-0.9	7.3	9.3	3.4
Nondurables	1.5	1.9	-0.9	1.0	1.3	1.8	2.6	2.7	1.8	0.7	0.9	2.0	2.0
Services	1.7	2.3	3.1	1.6	3.6	3.2	2.7	2.0	1.7	1.8	2.5	2.6	3.6
Residential Investment	-5.9	39.1	49.4	44.2	20.5	4.2	8.6	9.0	-4.9	-10.2	29.4	9.3	4.9
Nonresidential Investment	-7.7	-6.0	-2.9	-0.7	2.2	4.3	5.5	5.5	3.5	-3.6	-3.2	4.3	5.0
Structures	-5.2	-4.8	-1.9	-1.2	0.6	1.6	1.1	-0.5	6.3	2.9	-2.0	0.3	-0.8
Equipment	-8.8	-6.5	-3.3	-0.4	3.0	5.6	7.7	8.3	2.4	-6.4	-3.8	6.3	7.6
Exports	-16.7	-21.6	-2.1	-2.3	1.9	0.7	3.1	1.6	-0.5	-6.5	-6.9	1.7	4.3
Imports	4.5	-25.2	2.4	4.8	7.8	7.9	7.0	4.7	7.2	-0.2	-1.2	6.1	4.0
Government Purchases	8.4	12.1	-3.2	-2.9	2.1	2.1	2.0	3.8	0.9	1.5	1.8	2.2	2.4
Consumption (% of GNP)	64.6	65.5	65.2	65.0	64.9	64.9	64.9	64.7	63.1	64.8	65.0	64.7	64.5
Residential Investment (% of GNP)	2.7	2.9	3.2	3.5	3.6	3.6	3.6	3.7	3.0	2.7	3.5	3.6	3.7
Nonresidential Investment (% of GNP)	11.0	10.9	10.7	10.6	10.6	10.6	10.6	10.6	11.4	11.2	10.6	10.7	10.8
Inventory Change ($ billions)	4.7	-48.3	-27.1	-10.5	-1.7	6.8	11.5	18.3	20.4	-23.9	-8.1	20.7	27.8
Mfg. Capacity Utilization Rate (%)	70	68	68	69	70	71	72	72	78	70	70	73	75
Auto Sales (millions of units)	7.8	8.7	8.3	8.4	9.1	9.6	9.8	10.0	8.5	8.0	8.8	10.0	10.3
Manufacturing Industrial Production (% change)	-1.1	-9.1	5.3	8.1	7.4	6.8	6.2	6.7	2.4	-8.5	1.8	6.4	5.0
Common Market	-14.5	0.5	1.2	2.6	2.8	1.6	5.7	2.3	-1.5	-1.9	-0.9	3.0	2.5
Japan	6.4	-2.4	6.2	5.5	3.9	1.8	2.3	3.3	3.1	1.1	3.1	3.4	4.5
Employment (millions)	99.6	99.1	99.4	100.2	100.9	101.7	102.3	103.0	100.4	99.5	100.6	103.2	105.4
Unemployment Rate (%)	10.0	10.7	10.3	10.2	10.0	9.8	9.7	9.5	7.6	9.7	10.1	9.5	9.2
Disposable Income per Household (average)	27,444	27,706	27,839	28,329	29,106	29,758	30,481	31,013	25,604	27,158	28,758	31,260	33,771
Percent Change -- Year Ago (w/o inflation)	0.0	-0.1	1.0	0.9	1.9	2.8	3.1	3.4	1.5	0.2	1.7	3.0	2.7
Total Taxes per Household (average)	13,162	13,268	13,479	13,689	13,798	14,034	14,458	14,752	13,186	13,140	13,750	14,902	16,219
Percent Change -- Year Ago	-1.5	0.8	3.9	4.0	4.8	5.8	7.3	7.8	11.7	-0.4	4.6	8.4	8.8
Percent of Disposable Income	48.0	47.9	48.4	48.3	47.4	47.2	47.4	47.6	51.5	48.4	47.8	47.7	48.0
Household Debt as Percent of Disposable Income	77.6	77.9	78.5	78.3	77.3	76.8	76.3	76.5	79.1	78.1	77.7	76.7	77.4
Consumer Price Inflation (CPI)	7.8	2.0	-0.7	4.0	5.1	4.9	5.4	5.3	10.3	6.2	3.2	5.1	5.8
Gross National Product Inflation (GNP Deflator)	5.0	3.7	5.0	5.3	4.5	5.0	5.2	5.2	9.4	5.9	4.7	5.1	5.6
Personal Consumption Inflation	7.5	4.5	2.2	4.1	4.9	4.6	5.1	4.9	8.6	5.9	4.2	4.9	5.6
Residential Construction Inflation	0.3	-4.7	3.3	5.6	5.9	6.1	6.9	7.0	7.0	1.9	1.8	6.4	6.6
Nonresidential Construction Inflation	-1.3	0.2	1.7	3.3	4.9	5.4	6.3	5.4	10.3	6.0	2.2	5.4	6.0
Producers Price Inflation (WPI)	3.5	1.7	-2.2	1.4	6.4	6.2	5.8	5.9	9.1	2.0	1.6	5.7	7.1
Compensation per Manhour (% change)	6.4	5.5	5.5	5.2	5.6	5.7	8.0	6.3	9.6	7.2	5.7	6.5	7.0
Productivity (% change)	3.7	2.0	1.9	2.3	2.5	2.4	2.1	2.2	1.4	0.1	2.3	2.2	1.5
Unit Labor Cost (% change)	3.2	3.7	3.1	2.9	3.0	3.2	5.8	4.1	8.1	7.1	3.3	4.2	5.4
Unit Capital Cost (% change)	9.4	8.8	8.1	7.2	6.3	5.5	5.1	4.8	10.7	9.5	6.8	4.7	4.4
Before Tax Corporate Profits ($ billions)<1>	198	195	206	217	227	237	242	249	259	192	222	251	280
Corporate Tax Liability	61	59	64	67	69	73	74	76	81	58	68	77	84
'Windfall Profits' Tax Receipts	18	16	15	11	11	11	11	12	27	17	12	11	14
Inventory Valuation Adjustment	-10	-13	-1	-3	-4	-9	-16	-16	-25	-9	-4	-15	-23
Capital Consumption Adjustment	-4	1	3	5	5	5	6	7	-17	-5	5	7	10
After Tax Profits	119	119	127	139	147	153	157	162	151	118	141	163	182
Profits from Current Production (with IVA, CCA)	105	108	129	140	148	149	148	152	109	103	142	156	168
Adjusted for Inflation (82:1 base)	103	105	124	132	138	138	135	137	114	102	133	139	142
Percent Change - Year Ago	-10.0	-7.8	23.2	33.9	34.0	31.5	8.6	3.5	3.0	-10.8	30.7	4.6	2.4
Per Unit of Output (% of GNP)	3.4	3.5	4.1	4.3	4.5	4.4	4.3	4.3	3.7	3.4	4.3	4.4	4.3
Effective Corporate Tax Rate (%)<1>	37	36	34	33	33	33	34	34	43	37	33	34	34
Federal Tax Receipts (Unified basis)	597	548	534	720	611	571	591	785	620	609	609	680	761
Federal Expenditures (Unified basis)	742	821	809	813	782	845	888	900	698	740	812	898	989
Surplus or Deficit (Unified basis)	-145	-273	-275	-93	-171	-273	-296	-115	-78	-131	-203	-218	-228
% of GNP	4.7	8.8	8.7	2.9	5.2	8.1	8.6	3.3	3.8	4.2	6.2	6.1	5.8
% of Personal Savings	95.4	204.7	212.6	65.1	105.1	157.1	156.8	59.9	85.5	93.8	135.0	111.9	105.0
% of Total Private Savings	26.5	51.5	50.3	16.3	28.5	44.1	46.2	17.5	21.8	24.6	34.8	32.5	30.5

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 11

REAL ESTATE AND FINANCIAL MARKETS

APRIL 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:3	82:4	83:1	83:2	83:3	83:4	84:1	84:2	1981	1982	1983	1984	1985
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	1,893	2,133	2,472	2,519	2,860	3,045	3,125	3,237	2,419	1,990	2,724	3,272	3,736
Percent Change - Year Ago	-18.2	6.7	25.5	28.9	51.0	42.7	26.4	28.5	-18.7	-17.8	37.0	20.1	14.2
Dollar Volume (billions)	154.6	170.9	198.9	206.8	235.6	246.8	256.8	272.2	189.4	160.2	222.0	275.8	338.0
Existing Home Prices - Median ($1000's)	68.5	67.4	68.3	70.2	70.9	70.1	71.3	73.2	66.4	67.8	69.9	73.4	79.2
Percent Change - Year Ago	1.3	1.8	2.2	3.1	3.6	4.0	4.5	4.3	6.8	2.1	3.2	5.1	7.9
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	772	674	633	622	617	603	613	628	742	754	619	631	710
Percent of Household Income	29	25	23	22	22	21	21	21	29	28	22	21	22
New Single-Family Home Sales (thousands)	409	516	558	611	606	634	659	677	437	411	602	680	699
Percent Change - Year Ago	8.7	28.7	47.9	67.4	48.4	22.7	18.1	10.7	-19.8	-5.7	44.5	12.9	2.9
New Home Prices - Median ($1000's)	69.6	71.7	72.3	73.1	74.1	75.2	76.4	77.7	68.9	69.3	73.7	78.2	83.3
Percent Change - Year Ago	0.4	2.8	8.9	5.1	6.5	4.9	5.7	6.2	6.4	0.6	6.3	6.2	6.4
New Home Prices--Mean ($1000's, Quality Adjusted)	87.6	86.3	91.4	92.2	92.0	91.8	93.5	95.8	85.5	87.8	91.9	95.8	99.8
Percent Change - Year Ago	2.0	-1.1	3.5	3.8	5.0	6.4	2.3	3.9	8.8	2.7	4.7	4.2	4.3
New Mortgage Commitments ($ billions)	57.1	94.5	105.7	125.5	129.5	112.1	123.4	134.0	60.0	64.5	118.2	144.3	160.7
Percent Change - Year Ago	17.8	107.8	81.0	160.7	126.8	18.7	16.7	6.8	-31.2	7.6	83.2	22.1	11.4
Mortgage Debt Outstanding ($ billions)	1,634	1,654	1,668	1,686	1,709	1,732	1,760	1,798	1,544	1,629	1,699	1,826	2,046
Homeowners' Equity ($ billions)	2,238	2,253	2,474	2,513	2,565	2,602	2,647	2,696	2,208	2,244	2,539	2,722	2,925
Housing Inventory (millions)	90.7	90.9	91.2	91.5	91.9	92.2	92.6	92.9	89.7	90.6	91.7	93.1	94.6
Private Housing Starts (thousands)	1,122	1,261	1,700	1,564	1,501	1,600	1,638	1,645	1,084	1,061	1,591	1,662	1,738
Single-Family	653	809	1,150	1,118	1,041	1,106	1,133	1,123	705	662	1,106	1,127	1,183
Multi-Family	469	452	550	446	550	493	505	522	379	399	485	535	555
Mobile Home Shipments (thousands)	232	239	256	268	278	293	300	308	240	239	274	306	322
Rental Vacancy Rate (%)	5.3	5.5	5.5	5.5	5.4	5.4	5.4	5.4	5.0	5.3	5.4	5.4	5.4
Unsold New Homes (% of sales)	64.5	47.3	50.5	106.9	55.2	55.4	58.2	59.3	75.6	64.8	67.0	58.4	59.2
Office Vacancy Rate (%)<1>	8.9	10.3	10.5	10.6	10.6	10.5	10.4	10.4	4.3	7.9	10.6	10.3	9.2
Industrial Vacancy Rate (%)<1>	4.6	4.8	5.2	5.5	5.4	5.4	5.3	5.3	3.7	4.4	5.4	5.2	4.5
New Commercial Building Construction (% Ch Value)	-8.9	1.5	38.6	21.8	21.0	17.3	15.4	6.7	13.9	8.7	16.1	12.4	1.4
New Industrial Building Construction (% Ch Value)	-12.8	-11.5	4.1	-14.3	-13.5	-11.9	-11.7	5.7	22.0	-1.6	-7.9	-4.3	14.6
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.9	6.0	5.8	6.2	6.9	7.2	7.6	7.6	6.4	6.5	6.5	7.6	7.8
Money Supply (M1) (% change)	6.3	13.7	15.6	10.4	3.1	4.2	3.9	4.7	7.1	6.5	10.0	4.7	5.5
Money Supply (M2) (% change)	11.4	9.6	23.0	14.4	8.9	8.5	4.3	8.5	9.5	9.4	13.6	7.9	8.6
Total Time and Savings Deposits (% change)	9.2	2.1	-8.1	2.5	7.1	8.5	10.0	11.9	8.8	6.6	1.7	9.6	10.6
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	16.81	14.84	13.64	12.89	12.62	12.41	12.77	12.82	16.71	16.59	12.89	12.85	13.71
Real Mortgage Rate	11.80	11.12	8.66	7.56	8.09	7.45	7.59	7.67	7.85	12.19	7.94	7.62	7.91
Assumption Rate	11.78	11.92	12.11	12.06	11.92	11.54	11.35	11.26	11.00	11.82	11.91	11.16	11.04
Seller Take Back Mortgage Rate	12.30	12.50	12.25	12.05	11.85	11.80	11.70	11.60	11.80	12.35	11.85	11.06	11.24
Blended Rate	14.42	13.25	12.55	12.13	12.02	11.93	12.24	12.29	14.15	14.27	12.16	12.32	12.82
Corporate Bond Rate (AAA)	13.75	11.88	12.07	11.52	11.05	10.68	10.42	10.21	14.17	13.79	11.33	10.16	10.00
Government Bond Rate	13.00	10.31	9.95	9.19	8.94	8.88	9.07	8.93	14.34	12.96	9.24	8.87	9.32
Real Long-term Government Bond Rate	7.99	6.60	4.97	3.85	4.40	3.93	3.89	3.78	5.48	8.56	4.29	3.64	3.52
Federal Funds Rate	11.01	9.29	8.13	7.80	8.30	8.87	9.60	9.67	16.38	12.26	8.27	9.43	11.06
3 Month Treasury Bills	9.32	7.91	7.83	7.31	7.34	7.57	8.29	8.38	14.03	10.61	7.51	8.26	9.27
1 Year Treasury Bills	11.84	9.13	8.81	8.36	8.38	8.55	9.16	9.17	14.78	12.28	8.53	9.03	9.89
Commercial Paper Rate	11.15	8.80	7.86	7.82	8.55	9.11	9.92	9.96	15.33	11.89	8.33	9.79	11.30
Rate on Money Market Fund Shares	11.40	8.94	8.33	8.14	8.12	8.51	9.43	9.57	15.68	12.12	8.27	9.42	10.74
Prime Rate	14.72	11.96	10.68	10.01	10.23	10.95	11.85	11.75	18.87	14.86	10.47	11.60	12.46

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Aggregate Economy--The Anatomy of Recovery

Economic recovery is firmly established but is starting off at an even more modest pace than originally anticipated. The uncertainty in credit markets attributable to the prospect of federal budget deficits in excess of $200 billion per year for the foreseeable future is keeping real interest rates extremely high and thereby dampening consumer spending and both residential and business investment.

Preliminary data indicate that after adjusting for inflation Gross National Product (GNP) increased 3.1 percent during the first quarter of 1983, a very modest rise for the first quarter of a recovery. Moreover, much of this growth is due to a substantial decline in the rate at which businesses are reducing inventories. Final sales (GNP less the change in business inventories) increased just 0.9 percent.

The annualized rate of growth of real GNP is expected to accelerate to 4.9 percent by the third quarter of this year and then taper off to 2.5 percent by the fourth quarter of 1984. For all of 1983 real GNP should increase 2.4 percent compared to a decline of 1.7 percent during 1982. In 1984 the economy should grow by 3.9 percent.

Table 1

Annualized Percent Change in Real GNP

	82:3	82:4	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1982-84
Current Recovery	0.7	-1.0	3.1	4.2	4.9	3.6	4.1	4.0	3.5	2.5	6.4
Average of Three Preceding Recoveries*	-0.6	-4.8	6.1	6.0	4.0	7.7	5.3	4.9	4.1	5.9	9.7**

*Covers 74:4 to 77:1, 70:3 to 72:4, 60:3 to 62:4.

**Covers 1975 to 1977, 1970 to 1972, 1960 to 1962.

While the economy has turned the corner and is now on a growth path, it is important to note that not all sectors of the economy contribute to recovery to the same extent or at the same time. Typically, residential investment and consumer expenditures for automobiles, the interest sensitive sectors, head off the recovery with major increases in activity. As the outlook for sales begins to improve businesses start investing in inventories of raw materials and finished goods. About three to four quarters into the recovery total consumption expenditures begin making a major contribution as consumers' incomes and confidence increase. In the latter stages of recovery the major contribution is provided by business investment in durable equipment and, somewhat later, structures. Finally, as the U.S. economy recovers and stimulates recovery in the economies of our trading partners, exports pick up and provide additional output and employment.

At this point the primary force behind the recovery is residential investment which increased at an annualized rate of 39.1 percent during the fourth quarter of 1982 and 83.1 percent during the first quarter of this year. The strength of this surge in housing construction underscores the continued strong demand for housing. However, the rate of growth of residential investment, and so its contribution to the recovery, has peaked and should decline precipitously over the remainder of this year and 1984.

Table 2

Annualized Percent Change in Real Residential Investment

	82:3	82:4	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1982-84
Current Recovery	-5.9	39.1	83.1	38.4	21.6	-13.0	8.9	10.1	6.8	5.3	43.1
Average of Three Preceding Recoveries	-9.0	6.5	15.0	26.6	26.9	22.6	13.6	7.4	17.6	8.4	36.5

Increases in consumption expenditures, particularly for motor veh have also contributed to the up turn of the economy. In the fourth qua 1982 consumer spending on autos increased 48 percent. But despite the d in interest rates and numerous manufacturer incentive programs, consume.s remain very cautious. Auto sales declined in the first quarter of 1982 with sales of domestically produced units remaining at an annual rate of six million. Sales should pick up during the second half of the year as consumers' confidence and incomes improve.

Table 3

Annualized Percent Change in Real Consumer Expenditures for Motor Vehicles

	82:3	82:4	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1982-84
Current Recovery	-4.5	48.3	-1.1	8.4	24.9	24.7	15.2	9.5	7.9	6.4	29.6
Average of Three Preceding Recoveries	-15.1	-19.4	46.5	27.5	16.9	35.8	7.2	10.1	8.0	37.7	25.4

Overall, increases in expenditures for consumer durables should sustain the recovery during its middle phase. However, this projection does assume that the 10 percent cut in federal personal income taxes scheduled for July 1 will take effect. Repeal or reduction of that tax cut could dampen consumer spending and the recovery.

Table 4

Annualized Percent Change in Real Consumer Expenditures for Durables

	82:3	83:4	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1982-84
Current Recovery	-5.4	20.2	4.8	6.4	13.6	12.7	10.1	6.8	5.4	3.9	17.7
Average of Three Preceding Recoveries	-12.0	-8.8	13.2	14.8	10.9	20.3	7.0	8.3	6.5	19.7	17.9

Firms continued to reduce inventories during the first quarter of 1983 but at a much reduced rate. It appears that the inventory correction is nearly completed and by the fourth quarter of this year firms will begin to accumulate inventories. As the recovery proceeds and final sales pickup, inventory accumulation will increase and make a major contribution to recovery in its latter stages.

Table 5

Annualized Constant Dollar Change in Business Inventories

	82:3	82:4	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1982-84
Current Recovery	3.4	-20.3	-12.4	-6.0	-1.3	2.1	3.7	6.1	9.2	10.1	-4.2
Average of Three Preceding Recoveries	7.6	-6.1	-1.4	4.4	3.7	7.1	9.3	9.2	7.6	8.5	12.8

In total, business fixed investment continues to act as a drag on the economy although recent indicators suggest that improvement is not far off. The index of capacity utilization in all manufacturing industries increased during the first quarter of 1983 following eight consecutive quarterly declines. Further, the decline in interest rates over the last six months has enabled businesses to lengthen the maturity of their debt and thereby improve their cash flow. As the recovery proceeds capacity utilization and cash flow will continue to improve, setting the stage for a strong upturn in business fixed investment in 1984 and 1985 which should act as the primary force of growth late in the recovery.

By the second quarter of 1984 real investment in producers durable equipment should exceed 6 percent at an annual rate and then remain at or near that level through 1985.

Table 6

Annualized Percent Change in Real Investment in Producers' Durable Equipment

	82:3	82:4	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1983-84
Current Recovery	-8.8	-6.5	1.5	1.0	2.5	4.4	5.8	6.4	5.7	5.4	2.3
Average of Three Preceding Recoveries	-12.5	-19.2	-5.7	10.7	1.5	15.7	11.4	11.2	5.0	21.2	13.7

Business investment in new structures will remain relatively weak due to vastly different performances for investment in commercial structures, which includes office buildings, and industrial structures. Construction of commercial space, which is closely linked to the residential market, increased at an annual rate of 17 percent in real terms during the first quarter of 1983. Growth in this sector should remain fairly strong for the remainder of this year before tapering off. In contrast, construction of new industrial structures declined by 31 percent during the first quarter of this year and should continue to decline through mid--1984. During the second half of 1984 and all of 1985 there should be substantial growth in investment in industrial structures.

Table 7

Annualized Percent Change in Real Investment in Commercial Structures

	82:3	82:4	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1982-84
Current Recovery	-9.9	0.5	17.3	12.0	-0.6	14.2	12.4	5.9	3.3	-0.6	14.7
Average of Two Preceding Recoveries	-14.4	-17.5	-11.3	14.3	19.5	6.7	3.4	2.0	1.0	9.9	14.2

Table 8

Annualized Percent Change in Real Investment in Industrial Structures

	82:3	82:4	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1982-84
Current Recovery	-14.1	-12.0	-30.6	-25.8	-15.3	-14.8	-19.2	-1.2	9.5	10.7	-27.8
Average of Two Preceding Recoveries	21.4	-26.5	- 6.6	-18.6	-27.1	-1.3	-26.2	-11.2	-9.1	3.7	-23.4

Because of recession in the economies of our major trading partners and because the dollar is overvalued by 10% to 15%, exports fell sharply during the past recession. Exports will continue to decline through the second quarter of this year before rising modestly. Unfortunately, exports, which now represent 10 percent of our GNP, will contribute very little to this economic recovery.

Table 9

Annualized Percent Change in Real Exports

	82:3	82:4	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1982-84
Current Recovery	-16.7	-21.6	-0.9	-1.4	4.1	2.2	4.4	2.3	2.0	2.3	-3.6
Average of Three Preceding Recoveries	0.1	-2.8	-1.5	-2.5	18.8	-6.8	17.8	11.1	8.3	5.7	9.1

The brightest spot on the economic horizon is the remarkable reduction in inflation. During the first quarter of 1983 consumer prices fell at an annual rate of 0.4 percent when as recently as 1980 the increase in the Consumer Price Index (CPI) was 13.5 percent. Much of the decline in inflation is due to the drop in oil prices which has already been incorporated into product prices. Declining prices for agricultural products and imports as well as a general squeezing of profit margins have also contributed to the decline in product prices. Barring additional substantial declines in oil prices, inflation should increase somewhat as the recovery proceeds and reach 6 percent during 1984.

Interest rates continue to respond to the much improved inflation outlook and the reduced demand for credit of both businesses and consumers. Short-term rates have trended down in recent weeks and should continue to decline through summer. The rate on 3 month T-Bills should dip below 8 percent over the next few months before returning to the 9 percent level by the end of the year. Long-term rates should also continue to decline modestly through the end of this year with the mortgage commitment rate reaching 12.5 percent. However, real long-term rates, the level of interest rates above the inflation rate, remain at more than double their level of the past 20 years and are a major deterrent to the expansion of the economy. The primary factor behind these high real rates is the prospect of federal budget deficits in excess of $200 billion per year for the foreseeable future. Borrowing to finance the deficit is placing and will continue to place a great deal of

upward pressure on interest rates and is "crowding out" the demands for credit by consumers and businesses. Further, credit markets continue to expect a resurgence of inflation since the Federal Reserve Board is under immense political pressure to lower interest rates by increasing the supply of money much faster than its stated target growth rates. Resolution of the current federal budget stalemate through substantial spending cuts would ease both the total demand for credit and the expectations of future inflation and allow further declines in long-term rates.

The modest real growth of the economy has resulted in some improvement in the employment situation. The unemployment rate fell to 10.4 percent in the first quarter of 1983, down from its peak of 10.7 percent in the fourth quarter of 1982. At that time nearly 12 million Americans were unemployed, very close to the all time record of 12.8 million in 1933. Employment has increased in industries such as construction, lumber and wood products, furniture and fixtures, and transportation equipment which where particularly hard hit by the recession. Employment growth should accel- erate as the recovery proceeds but the weakness of the recovery will keep unemployment very high for the next several years. The unemployment rate should drop below the 10 percent level by the end of this year but should remain at 9 percent or above well into 1985.

Real Estate Markets

The decline of mortgage interest rates and the improving economy have combined to give a very strong beginning to the housing recovery. In March, sales of existing single-family homes surged ahead to a seasonally adjusted annual rate of 2,700,000 units--9.8 percent above February's pace and 45 percent above the August 1982 low. As expected housing starts dipped to a seasonally adjusted annual rate of 1,611,000 units in March as builders' expectations of further big declines in mortgage rates have failed to materialize. Still, the March rate was 77 percent above the previous trough of June 1982.

Resales will continue to pick up through the remainder of 1983 and should hit the 3,000,000 unit level during early 1984. For 1983 as a whole we expect about 2.7 million existing units to change hands--38 percent above the 1982 level. In 1984 and 1985 resales should increase to about 3-1/4 million units. Housing starts should taper off somewhat over the remainder of the year before reaching a sustainable level. For all of 1983, about 1.6 million new housing units should be started--50 percent higher than last years level. For 1984 and 1985 starts could rise modestly to about 1.7 million units.

Prices of new single-family homes have risen sharply in response to the recovery of housing markets. For the first quarter of 1983 the median price of new single-family homes sold was 12.9 percent higher than a year ago. However, sales prices of existing single-family homes have risen modestly despite the substantial increase in resale activity. Nationwide, the median sales price of existing single-family homes in March was $69,300--just 3.4 percent higher than a year ago. For 1983 as a whole prices of existing homes should rise about 4 percent, slightly above the overall rate of inflation, while prices of new homes rise about 10 percent.

The brisk recovery of housing markets is due to the much improved affordability situation. Lower mortgage interest rates, relatively stable home prices and modest gains in family income have combined to produce ten consecutive months of improving affordability. In March, the Housing Affordability Index stood at 81.8, which means that a family earning the median income of $24,150 had 81.8 percent of the income needed to qualify for the purchase of a median-priced existing single-family home. This is a substantial improvement over May of 1982 when the Affordability Index stood at its lowest point of 65.2. Affordability should continue to improve over the course of the year as mortgage interest rates edge down further and disposable income per household increases.

Table 10

Housing Affordability Index

	Median-priced Existing Home	Mortgage Rate	Monthly P & I Payment	Payment as % Income	Median Family Income	Qualifying Income	Affordability Index
1977	$42,900	9.02%	$277	20.7%	$16,010	$13,279	120.6%
1978	48,900	9.58	330	22.4	17,640	15,834	111.4
1979	55,700	10.92	422	25.7	19,680	20,240	97.2
1980	62,200	12.95	549	31.3	21,023	26,328	79.9
1981	66,400	15.12	677	36.3	22,388	32,485	68.9
1982	67,800	15.38	702	35.4	23,800	33,713	70.6
1982							
Mar	$67,000	15.65%	$706	37.2%	$22,741	$33,873	67.1%
Apr	67,100	16.00	722	37.9	22,859	34,650	66.0
May	67,800	16.11	734	38.3	22,976	35,242	65.2
Jun	69,400	15.56	727	37.8	23,094	34,893	66.2
Jul	69,200	15.52	723	37.4	23,212	34,707	66.9
Aug	68,900	15.59	723	37.2	23,329	34,706	67.2
Sep	67,300	15.27	692	35.4	23,447	33,236	70.5
Oct	66,900	14.95	675	34.4	23,565	32,380	72.8
Nov	67,700	14.29	654	33.1	23,682	31,401	75.4
Dec	67,800	13.95	641	32.3	23,800	30,609	77.4
1983							
Jan	$68,100	13.54%	$626	31.4%	$23,917	$30,035	79.6%
Feb[r]	68,200	13.40	621	31.0	24,033	29,791	80.7
Mar[p]	69,300	13.04	615	30.6	24,150	29,520	81.8

[r]revised.

[p]preliminary.

Table 11

U.S. ECONOMIC OUTLOOK

MAY 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:4	83:1	83:2	83:3	83:4	84:1	84:2	84:3	1981	1982	1983	1984	1985
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,108	3,177	3,245	3,314	3,382	3,460	3,539	3,616	2,938	3,059	3,279	3,576	3,900
Percent Change	2.6	9.1	8.9	8.8	8.5	9.6	9.4	9.0	11.6	4.1	7.2	9.1	9.1
Percent Change (without inflation)	-1.0	3.1	4.2	4.9	3.6	4.1	4.0	3.5	1.9	-1.7	2.4	3.9	3.1
Consumption	4.5	2.3	2.4	4.2	3.9	3.9	3.1	2.6	1.8	1.0	2.9	3.4	2.8
Durables	20.2	4.8	6.4	13.6	12.7	10.1	6.8	5.4	2.2	-0.9	7.9	9.1	3.3
Nondurables	1.9	2.5	-1.7	1.2	1.5	2.9	2.9	2.1	1.8	0.7	1.2	1.8	1.8
Services	2.3	1.4	4.5	3.8	3.1	2.7	2.0	2.1	1.7	1.8	2.6	2.7	3.4
Residential Investment	39.1	83.1	38.4	21.6	-13.0	8.9	10.1	6.8	-4.9	-10.2	33.7	7.1	4.8
Nonresidential Investment	-6.0	2.8	-1.1	-1.4	3.8	4.6	4.7	4.0	3.5	-3.6	-2.4	3.2	4.0
Structures	-4.8	5.3	-5.1	-9.3	2.5	2.2	1.2	0.5	6.3	2.9	-2.2	-0.3	0.2
Equipment	-6.5	1.5	1.0	2.5	4.4	5.8	6.4	5.7	2.4	-6.4	-2.5	4.9	5.7
Exports	-21.6	-0.9	-1.4	4.1	2.2	4.4	2.3	2.0	-0.5	-6.5	-6.1	2.7	4.2
Imports	-25.2	10.8	2.7	8.6	7.4	5.9	4.7	4.3	7.2	-0.2	0.5	5.7	3.8
Government Purchases	12.1	-8.9	0.8	2.7	3.4	2.0	3.5	2.4	0.9	1.5	1.1	2.7	2.3
Consumption (% of GNP)	65.5	65.3	65.0	65.0	65.0	65.0	64.8	64.7	63.1	64.8	65.1	64.8	64.6
Residential Investment (% of GNP)	2.9	3.4	3.6	3.7	3.6	3.6	3.7	3.7	3.0	2.7	3.6	3.7	3.7
Nonresidential Investment (% of GNP)	10.9	10.9	10.7	10.6	10.6	10.6	10.6	10.6	11.4	11.2	10.7	10.6	10.7
Inventory Change ($ billions)	-48.3	-28.5	-13.6	-2.8	5.1	9.2	15.2	23.1	20.4	-23.9	-9.9	18.3	27.4
Mfg. Capacity Utilization Rate (%)	68	69	70	71	71	72	73	73	78	70	70	73	75
Auto Sales (millions of units)	8.7	8.4	8.4	9.0	9.5	9.7	9.8	10.0	8.5	8.0	8.8	9.9	10.1
Manufacturing Industrial Production (% change)	-9.1	10.0	8.2	6.8	5.0	5.8	6.3	5.3	2.4	-8.5	2.8	5.9	4.5
Common Market	-0.9	5.0	2.3	0.3	1.9	3.2	1.2	2.3	-1.5	-1.7	0.1	1.9	2.0
Japan	-2.5	4.5	4.0	6.9	6.2	3.2	3.5	8.0	3.1	1.1	3.0	5.2	4.0
Employment (millions)	99.1	99.1	100.2	101.0	101.7	102.4	103.0	103.6	100.4	99.5	100.5	103.3	105.4
Unemployment Rate (%)	10.7	10.4	10.2	9.9	9.8	9.6	9.5	9.4	7.6	9.7	10.1	9.5	9.2
Disposable Income per Household (average)	27,706	27,923	28,487	29,179	29,788	30,543	31,078	31,609	25,604	27 158	28,844	31,339	33,906
Percent Change -- Year Ago (w/o inflation)	-0.3	0.7	1.1	2.3	3.4	4.5	4.1	3.2	1.5	0.2	1.9	3.6	2.5
Total Taxes per Household (average)	13,266	13,482	13,678	13,766	13,978	14,377	14,669	14,984	13,186	13,139	13,726	14,833	16,083
Percent Change -- Year Ago	0.7	3.9	4.0	4.6	5.4	6.6	7.2	8.8	11.7	-0.4	4.5	8.1	8.4
Percent of Disposable Income	47.9	48.3	48.0	47.2	46.9	47.1	47.2	47.4	51.5	48.4	47.6	47.3	47.4
Household Debt as Percent of Disposable Income	77.9	78.4	77.9	77.2	76.9	76.2	76.2	76.4	79.1	78.1	77.6	76.4	76.7
Consumer Price Inflation (CPI)	2.6	-0.4	3.9	4.8	5.0	5.7	5.5	5.5	10.3	6.2	3.2	5.3	6.0
Gross National Product Inflation (GNP Deflator)	3.7	5.8	4.5	3.7	4.7	5.3	5.2	5.3	9.4	5.9	4.7	4.9	5.8
Personal Consumption Inflation	4.5	2.3	4.4	4.5	4.6	5.1	5.0	5.1	8.6	5.9	4.2	4.9	5.6
Residential Construction Inflation	-4.7	6.0	6.4	5.8	5.8	6.7	7.0	6.6	7.0	1.9	2.6	6.4	7.0
Nonresidential Construction Inflation	0.2	-2.8	2.2	3.8	5.0	6.2	6.6	7.3	10.3	6.0	0.6	5.7	7.8
Producers Price Inflation (WPI)	1.7	-2.2	2.9	5.3	5.7	5.9	6.0	6.4	9.1	2.0	1.7	5.7	6.9
Compensation per Manhour (% change)	5.5	5.7	5.4	5.5	5.7	8.0	6.6	6.6	9.6	7.2	5.7	6.5	7.2
Productivity (% change)	2.0	2.0	2.4	2.1	1.7	2.1	2.0	1.9	1.4	0.1	2.2	2.0	1.7
Unit Labor Cost (% change)	3.7	3.3	2.9	3.3	3.9	5.8	4.5	4.6	8.1	7.1	3.4	4.5	5.4
Unit Capital Cost (% change)	8.9	8.1	7.2	8.3	5.4	4.9	4.5	4.2	10.7	9.5	6.8	4.4	4.0
Before Tax Corporate Profits ($ billions)<1>	192	195	203	211	217	223	233	241	259	192	206	237	282
Corporate Tax Liability	58	59	60	62	64	65	69	72	81	58	61	71	85
'Windfall Profits' Tax Receipts	16	13	11	11	11	11	12	11	27	17	12	11	14
Inventory Valuation Adjustment	-13	-1	-4	-4	-6	-15	-16	-14	-25	-9	-4	-15	-23
Capital Consumption Adjustment	1	7	8	8	7	9	11	13	-17	-5	7	11	8
After Tax Profits	118	123	132	138	142	146	153	157	151	117	134	155	182
Profits from Current Production (with IVA, CCA)	107	129	136	141	143	140	147	156	109	103	137	151	167
Adjusted for Inflation (82:1 base)	103	123	128	132	132	128	133	139	114	101	129	135	142
Percent Change - Year Ago	-9.1	22.8	29.5	28.4	28.2	3.7	3.8	5.0	3.0	-11.1	27.2	4.8	4.8
Per Unit of Output (% of GNP)	3.4	4.1	4.2	4.3	4.2	4.1	4.2	4.3	3.7	3.4	4.2	4.2	4.3
Effective Corporate Tax Rate (%)<1>	36	32	32	31	32	32	33	32	43	37	32	33	34
Federal Tax Receipts (Unified basis)	548	536	718	607	586	582	777	685	620	609	606	673	750
Federal Expenditures (Unified basis)	821	812	806	775	839	882	895	858	698	740	808	893	986
Surplus or Deficit (Unified basis)	-273	-276	-88	-168	-273	-300	-118	-173	-78	-131	-201	-220	-235
% of GNP	8.8	8.7	2.7	5.1	8.1	8.7	3.3	4.8	3.8	4.2	6.1	6.2	6.0
% of Personal Savings	204.7	209.5	59.5	103.8	159.9	159.7	61.9	88.9	85.5	93.8	133.2	113.4	104.2
% of Total Private Savings	51.4	49.9	15.0	27.6	43.5	46.3	17.9	25.5	21.8	24.5	34.0	32.8	31.7

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 12

REAL ESTATE AND FINANCIAL MARKETS

MAY 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:4	83:1	83:2	83:3	83:4	84:1	84:2	84:3	1981	1982	1983	1984	1985
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,133	2,580	2,643	2,780	2,950	3,059	3,170	3,278	2,419	1,990	2,738	3,208	3,341
Percent Change - Year Ago	6.7	31.0	35.3	46.8	38.3	18.6	20.0	17.9	-18.7	-17.8	37.8	17.2	4.1
Dollar Volume (billions)	170.9	208.0	217.8	229.8	239.9	254.4	271.0	283.7	189.4	160.2	223.9	273.7	303.7
Existing Home Prices - Median ($1000's)	67.5	68.5	70.6	71.2	70.4	72.2	74.5	75.6	66.4	67.8	70.2	74.3	79.7
Percent Change - Year Ago	2.0	2.6	3.6	4.0	4.3	5.4	5.5	6.1	6.8	2.1	3.7	5.9	7.2
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	675	633	623	620	602	632	654	666	742	754	619	655	744
Percent of Household Income	25	23	22	22	21	21	22	22	29	28	22	21	22
New Single-Family Home Sales (thousands)	517	591	644	638	660	709	717	725	437	417	633	716	741
Percent Change - Year Ago	28.9	56.6	76.3	56.1	27.7	20.0	11.3	13.6	-19.9	-4.5	51.8	13.0	3.4
New Home Prices - Median ($1000's)	71.6	74.9	76.0	76.9	78.0	79.3	80.6	81.9	68.8	69.3	76.4	81.2	86.8
Percent Change - Year Ago	2.6	12.9	9.1	10.6	9.0	5.8	6.1	6.5	6.4	0.7	10.4	6.3	6.9
New Home Prices--Mean ($1000's, Quality Adjusted)	86.5	89.1	90.3	89.6	89.0	92.1	93.8	93.4	85.5	87.8	89.5	93.1	97.1
Percent Change - Year Ago	-0.9	0.9	1.7	2.3	2.9	3.4	3.9	4.2	8.8	2.8	1.9	4.0	4.3
New Mortgage Commitments ($ billions)	94.5	111.7	115.9	113.6	112.3	117.0	128.1	141.2	60.0	64.5	113.4	135.8	135.4
Percent Change - Year Ago	107.8	91.2	140.7	99.0	18.9	4.8	10.5	24.3	-31.2	7.6	75.7	19.8	-0.3
Mortgage Debt Outstanding ($ billions)	1,654	1,668	1,693	1,717	1,742	1,772	1,809	1,855	1,544	1,629	1,705	1,836	2,035
Homeowners' Equity ($ billions)	2,407	2,473	2,577	2,664	2,736	2,785	2,836	2,891	2,343	2,395	2,612	2,865	3,101
Housing Inventory (millions)	90.9	91.2	91.6	91.9	92.3	92.6	93.0	93.4	89.7	90.6	91.7	93.2	94.8
Private Housing Starts (thousands)	1,261	1,693	1,616	1,507	1,574	1,646	1,658	1,670	1,100	1,059	1,597	1,658	1,717
Single-Family	809	1,068	1,168	1,054	1,093	1,151	1,144	1,165	713	663	1,096	1,150	1,184
Multi-Family	452	625	448	453	481	495	514	505	386	395	502	508	533
Mobile Home Shipments (thousands)	239	282	261	275	287	295	304	304	240	239	276	303	318
Rental Vacancy Rate (%)	5.5	5.5	5.5	5.4	5.4	5.4	5.4	5.4	5.0	5.3	5.4	5.4	5.4
Unsold New Homes (% of sales)	48.0	46.5	51.6	54.0	56.0	58.6	59.4	59.0	75.4	65.2	52.0	58.9	62.3
Office Vacancy Rate (%)<1>	10.3	10.8	10.6	10.6	10.5	10.4	10.4	10.3	4.3	8.0	10.6	10.3	9.2
Industrial Vacancy Rate (%)<1>	4.8	4.8	5.5	5.4	5.4	5.3	5.3	5.2	3.7	4.4	5.4	5.2	4.5
New Commercial Building Construction (% Ch Value)	1.4	7.4	42.0	4.9	21.9	21.0	14.2	10.3	13.9	8.7	10.4	16.5	7.1
New Industrial Building Construction (% Ch Value)	-11.6	-22.0	-17.2	-12.3	-10.9	-14.7	4.7	16.9	22.0	-1.5	-14.7	-5.0	14.6
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.0	5.9	6.4	6.9	7.1	7.6	7.5	7.6	6.4	6.5	6.6	7.6	8.1
Money Supply (M1) (% change)	13.7	14.8	9.2	4.6	4.1	4.0	4.5	4.4	7.1	6.5	9.7	4.8	5.4
Money Supply (M2) (% change)	9.6	21.2	12.4	10.9	9.6	7.1	6.6	7.8	9.5	9.4	13.2	8.4	7.8
Total Time and Savings Deposits (% change)	2.1	-11.1	-2.1	6.8	11.3	10.8	11.2	11.7	8.8	7.0	0.2	9.8	10.3
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	14.82	13.61	12.96	12.77	12.52	12.85	12.90	12.95	16.71	16.59	12.97	12.94	13.77
Real Mortgage Rate	11.11	7.80	8.43	9.05	7.80	7.59	7.68	7.64	7.85	12.19	8.27	7.57	7.75
Assumption Rate	11.92	12.11	12.06	11.92	11.54	11.35	11.26	11.11	11.00	11.82	11.91	11.16	11.04
Seller Take Back Mortgage Rate	12.50	12.70	12.30	12.05	11.80	11.70	11.60	11.45	11.80	12.35	12.21	11.38	11.56
Blended Rate	13.24	12.54	12.17	12.11	12.00	12.28	12.34	12.39	14.15	14.26	12.20	12.38	12.82
Corporate Bond Rate (AAA)	11.88	11.84	11.73	11.18	10.85	10.61	10.42	10.27	14.17	13.79	11.40	10.37	10.18
Government Bond Rate	10.31	9.96	9.30	9.24	9.13	9.32	9.26	9.14	14.34	12.96	9.41	9.20	9.75
Real Long-term Government Bond Rate	6.60	4.15	4.77	5.52	4.41	4.07	4.05	3.84	5.48	8.56	4.71	3.82	3.74
Federal Funds Rate	9.29	8.65	8.42	8.72	9.03	9.80	9.96	9.72	16.38	12.26	8.70	9.74	11.60
3 Month Treasury Bills	7.91	8.11	7.92	8.24	8.42	8.99	9.13	9.04	14.03	10.61	8.17	9.00	10.35
1 Year Treasury Bills	9.13	8.86	8.79	9.10	9.23	9.73	9.80	9.66	14.78	12.28	9.00	9.66	10.82
Commercial Paper Rate	8.80	8.34	8.41	8.76	9.21	10.14	10.32	10.21	15.33	11.89	8.68	10.17	11.86
Rate on Money Market Fund Shares	8.94	8.45	8.46	8.81	9.24	10.31	10.43	10.31	15.68	12.12	8.74	10.30	12.04
Prime Rate	11.96	10.88	10.39	10.48	11.03	11.90	11.89	11.78	18.87	14.86	10.70	11.76	12.95

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

The economic recovery that began during the first quarter of this year has gained momentum during the second quarter. Despite the surge in the rate of growth of economic activity the current recovery will be modest in comparison to previous recoveries of the post-WW II era. High real interest rates, the level of interest rates above the inflation rate, are sapping the vigor of this recovery by discouraging business investment, consumer spending on homes and automobiles, and, indirectly, exports of U.S. products. Moreover, their remains a very real threat that with the federal government absorbing such a large portion of total private savings the recovery may be choked off as private demand for credit increases and drives up interest rates.

After rising 2.5 percent during the first quarter of this year, Gross National Product (GNP) adjusted for inflation is expected to increase at an annualized rate of over 6 percent during the second quarter. For the remainder of 1983 and into 1984 quarterly growth rates should taper off to the 3 to 5 percent range. For all of 1983 real GNP is expected to increase 2.5 percent compared to a decline of 1.7 percent during 1982. In 1984 the economy should grow by nearly 4 percent.

Residential investment, which increased at an annualized rate of 80.1 percent during the first quarter of this year and is expected to increase a little over 40 percent during the second quarter, continues to lead the recovery. However, there are clear signs that the recovery is broadening into other sectors of the economy. The sharp increase in overall growth expected for the second quarter reflects a shift to inventory accumulation as businesses have experienced an increase in sales. Consumer spending, particularly for durable goods, is picking up and should show very strong growth during the second half of 1983 and into 1984. Business investment in equipment and structures should continue to decline during the remainder of this year before turning up early in 1984. Exports, which have been seriously hurt by the fact that the U.S. dollar is overvalued in foreign exchange markets, should begin rising modestly in the third quarter.

The economic growth experienced during the first half of this year has resulted in some improvement in the employment situation. Unemployment has fallen from its peak level of 10.7 percent in the fourth quarter of 1982 to an expected level of 10.1 percent for the second quarter of this year. The unemployment rate should drop below 10 percent during the second half of this year but is likely to remain at 9 percent or above well into 1985.

Consumer prices, which fell at an annualized rate of 0.4 percent during the first quarter of this year, should increase at an annualized rate of nearly 5 percent during the second quarter due mostly to increases in prices of gasoline and fuel oil. However, only modest further acceleration in inflation is expected over the next 18 months. For 1983 as a whole the Consumer Price Index is expected to rise just 3.5 percent--the lowest annual increase since 1972.

The past several weeks have seen a reversal of the downward trend in interest rates. In response to a great deal of uncertainty regarding the outcome of the federal budget process and the continued rapid growth of the nation's basic money supply, short-term rates have risen about one-half percentage point while long-term rates have risen about one-quarter percentage point. However, at this point there is little basis for expecting interest rates to continue to rise. Short-term rates such as the rate on 3--month Treasury bills should plateau at or near current levels for the remainder of this year while long-term rates should continue to decline modestly once this period of uncertainty passes. Mortgage rates should decline to the 12-1/2 percent level by the fourth quarter of this year before rising modestly during 1984.

REAL ESTATE MARKETS

Continuing improvement in affordability is sustaining the housing recovery. The Housing Affordabilty Index was up 1.5 points to 83.7, the highest level in three years. This means that a family earning the median income of $24,267 had 83.7 percent of the income needed to purchase the median priced single-family home.

In April sales of existing single-family homes rose to a seasonally adjusted annual rate of 2,750,000 units--up 1.5 percent over March and 47.8 percent above the August 1982 low. The recovery of resales is broad-based with all regions of the country experiencing substantial gains in activity. As expected housing starts again dropped in April to a seasonally adjusted annual rate of 1,490,000 units. However, building permits rose 4.7 percent in April to a seasonally adjusted annual rate of 1,536,000 units--their highest level since September 1979.

Resales will continue to pick up through the remainder of 1983 and should hit the 3,000,000 unit level during early 1984. For 1983 as a whole we expect about 2.7 million existing units to change hands--38 percent above the 1982 level. In 1984 and 1985 resales should increase to about 3-1/4 million units. Housing starts should remain at or near current levels over the remainder of the year. For all of 1983, about 1.6 million new housing units should be started--50 percent higher than last year's level. For 1984 and 1985 starts could rise modestly to about 1.7 million units.

The recovery of housing markets is producing a mixed picture for home prices. In April the median price of new single-family homes sold was $74,900, 6.7 percent higher than a year ago. In contrast, despite the substantial increase in market activity, prices of existing single-family homes sold have remained remarkably stable. In April the median resale price nationwide was unchanged at $68,900--just 2.7 percent higher than a year ago. For 1983 as a whole prices of existing homes should rise about 4 percent, slightly above the overall rate of inflation, while prices of new homes rise about 9 percent. In 1984 and 1985 the strong underlying demand for homeownership should keep the rate of price appreciation of both new and existing homes above the inflation rate.

Table 1

U.S. ECONOMIC OUTLOOK — JUNE 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:4	83:1	83:2	83:3	83:4	84:1	84:2	84:3	1981	1982	1983	1984	1985
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,108	3,171	3,266	3,332	3,401	3,487	3,565	3,641	2,938	3,059	3,292	3,602	3,932
Percent Change	2.6	8.3	12.6	8.3	8.5	10.6	9.3	8.8	11.6	4.1	7.6	9.4	9.2
Percent Change (without inflation)	-1.0	2.5	6.6	3.8	3.0	4.8	3.6	3.1	1.9	-1.7	2.5	3.8	2.9
Consumption	4.5	2.6	1.4	4.7	4.0	3.9	2.8	2.5	1.8	1.0	2.8	3.3	2.8
Durables	20.2	6.4	4.2	13.1	13.4	12.6	5.7	4.8	2.2	-0.9	7.9	9.4	3.8
Nondurables	1.9	2.3	-1.9	2.3	1.4	2.8	2.9	2.2	1.8	0.7	1.3	2.0	1.7
Services	2.3	1.6	3.3	4.2	3.2	2.0	1.6	2.0	1.7	1.8	2.5	2.5	3.3
Residential Investment	39.1	80.1	41.9	24.9	-12.8	9.8	11.2	3.7	-4.9	-10.2	34.3	7.5	3.6
Nonresidential Investment	-6.0	5.6	-3.8	-3.2	3.1	6.1	6.3	5.0	3.5	-3.6	-2.5	3.5	4.5
Structures	-4.8	-3.3	4.1	-8.3	2.8	-2.3	1.8	0.9	6.3	2.9	-2.4	-0.5	0.5
Equipment	-6.5	10.1	-7.3	-0.7	3.3	10.2	8.4	6.9	2.4	-6.4	-2.5	5.3	6.2
Exports	-21.6	-0.9	-2.4	4.5	0.9	3.4	1.9	1.9	-0.5	-6.5	-6.3	2.1	4.2
Imports	-25.2	12.8	0.4	8.1	8.7	7.5	5.8	5.4	7.2	-0.2	0.5	6.5	4.8
Government Purchases	17.1	-8.5	-0.4	1.9	1.2	1.2	2.8	2.3	0.9	1.5	0.8	1.7	1.9
Consumption (% of GNP)	65.5	65.5	64.7	64.8	65.0	64.8	64.7	64.6	63.1	64.8	65.0	64.7	64.6
Residential Investment (% of GNP)	2.9	3.3	3.6	3.8	3.6	3.6	3.7	3.7	3.0	2.7	3.6	3.7	3.7
Nonresidential Investment (% of GNP)	10.9	11.0	10.7	10.5	10.5	10.5	10.6	10.7	11.4	11.2	10.7	10.6	10.8
Inventory Change ($ billions)	-48.3	-37.3	6.3	7.5	16.0	28.2	33.0	39.2	20.4	-23.9	-1.9	35.2	44.6
Mfg. Capacity Utilization Rate (%)	68	69	72	72	72	73	74	74	78	70	71	74	76
Auto Sales (millions of units)	8.7	8.4	8.7	9.1	9.6	9.8	9.9	10.0	8.5	8.0	9.0	10.0	10.1
Manufacturing Industrial Production (% change)	-9.1	11.5	18.8	3.9	3.1	7.4	5.7	4.3	2.4	-8.5	4.5	5.8	4.0
Common Market	-1.7	4.0	1.2	2.0	2.9	2.6	1.2	1.3	-1.5	-1.7	-0.2	2.0	1.9
Japan	-2.7	-0.1	6.5	6.8	5.9	3.1	3.5	8.2	3.1	1.1	2.2	5.3	4.1
Employment (millions)	99.1	99.1	100.3	101.2	101.8	102.5	103.1	103.7	100.4	99.5	100.6	103.4	105.4
Unemployment Rate (%)	10.7	10.4	10.1	9.8	9.7	9.5	9.4	9.3	7.6	9.7	10.0	9.4	9.2
Disposable Income per Household (average)	27,706	27,925	28,704	29,450	30,050	30,763	31,320	31,875	25,604	27,158	29,032	31,593	34,236
Percent Change -- Year Ago (w/o inflation)	-0.3	0.7	1.6	2.9	3.9	4.6	3.7	2.8	1.5	0.2	2.3	3.3	2.3
Total Taxes per Household (average)	13,266	13,549	13,805	13,790	13,996	14,438	14,717	15,035	13,186	13,139	13,785	14,881	16,144
Percent Change -- Year Ago	0.7	4.4	4.9	4.8	5.5	6.6	6.6	9.0	11.7	-0.4	4.9	8.0	8.5
Percent of Disposable Income	47.9	48.5	48.1	46.8	46.6	46.9	47.0	47.2	51.5	48.4	47.5	47.1	47.2
Household Debt as Percent of Disposable Income	77.9	78.3	77.3	76.5	76.2	75.8	75.8	75.8	79.1	78.1	77.1	75.9	75.8
Consumer Price Inflation (CPI)	2.0	-0.4	4.9	5.5	5.4	5.7	5.5	5.4	10.3	6.2	3.5	5.5	6.1
Gross National Product Inflation (GNP Deflator)	3.7	5.7	5.6	4.3	5.3	5.5	5.5	5.6	9.4	5.9	4.9	5.4	6.1
Personal Consumption Inflation	4.5	2.1	5.5	5.0	5.1	5.5	5.4	5.3	8.6	5.9	4.5	5.3	5.9
Residential Construction Inflation	-4.7	10.7	8.1	6.9	6.6	7.2	7.4	6.9	7.0	1.9	4.2	7.1	7.2
Nonresidential Construction Inflation	0.2	-2.8	1.7	4.6	5.6	6.6	7.2	7.8	10.3	6.0	0.7	6.2	8.1
Producers Price Inflation (WPI)	1.7	-2.3	2.9	7.0	6.6	6.7	6.9	6.9	9.1	2.0	2.0	6.6	7.9
Compensation per Manhour (% change)	5.5	6.0	6.8	6.6	7.0	8.6	7.1	7.1	9.7	7.3	6.3	7.4	7.6
Productivity (% change)	0.0	4.9	3.6	3.1	2.0	2.2	1.8	1.7	1.4	0.0	2.9	2.2	1.6
Unit Labor Cost (% change)	5.3	1.3	3.0	3.3	4.8	6.2	5.3	5.3	8.1	7.2	3.3	5.1	5.9
Unit Capital Cost (% change)	8.9	8.1	7.1	6.1	5.2	4.6	4.2	4.0	10.7	9.5	6.6	4.2	3.9
Before Tax Corporate Profits ($ billions)<1>	192	191	207	214	216	228	235	242	259	192	207	239	277
Corporate Tax Liability	58	66	70	69	69	73	73	76	81	58	68	75	87
'Windfall Profits' Tax Receipts	16	13	11	11	11	11	12	11	27	17	12	11	14
Inventory Valuation Adjustment	-13	-1	-3	-8	-11	-15	-16	-17	-25	-9	-6	-17	-23
Capital Consumption Adjustment	1	8	10	12	13	10	12	14	-17	-5	11	12	9
After Tax Profits	118	113	126	134	136	144	151	154	151	117	127	152	176
Profits from Current Production (with IVA, CCA)	107	120	133	138	138	140	147	151	109	103	132	148	161
Adjusted for Inflation (82:1 base)	103	114	126	128	127	127	132	133	114	101	124	131	135
Percent Change - Year Ago	-9.1	13.6	27.1	24.8	22.9	11.0	4.8	3.7	3.0	-11.1	22.1	6.1	2.8
Per Unit of Output (% of GNP)	3.4	3.8	4.1	4.1	4.1	4.0	4.1	4.1	3.7	3.4	4.0	4.1	4.1
Effective Corporate Tax Rate (%)<1>	36	36	35	34	34	35	34	34	43	37	35	34	36
Federal Tax Receipts (Unified basis)	548	559	721	610	564	584	879	892	620	609	613	673	749
Federal Expenditures (Unified basis)	821	803	811	781	844	879	892	856	698	740	810	890	980
Surplus or Deficit (Unified basis)	-273	-244	-91	-171	-280	-295	-114	-170	-78	-131	-196	-217	-231
% of GNP	8.8	7.7	2.8	5.1	8.2	8.5	3.2	4.7	3.8	4.2	6.0	6.0	5.9
% of Personal Savings	204.7	184.8	55.6	96.3	153.9	152.7	57.7	83.7	85.5	93.8	122.6	107.8	100.2
% of Total Private Savings	51.4	44.8	15.2	27.5	44.2	45.2	17.0	24.8	21.8	24.5	32.9	32.0	31.0

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 2

REAL ESTATE AND FINANCIAL MARKETS

JUNE 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:4	83:1	83:2	83:3	83:4	84:1	84:2	84:3	1981	1982	1983	1984	1985
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,077	2,583	2,640	2,761	2,948	3,084	3,173	3,224	2,352	1,948	2,733	3,197	3,327
Percent Change - Year Ago	8.0	33.6	36.8	49.2	42.0	19.4	20.2	16.8	-18.4	-17.2	40.3	17.0	4.1
Dollar Volume (billions)	166.3	208.3	218.1	228.6	240.8	256.7	271.5	279.1	183.3	156.5	223.9	272.8	302.6
Existing Home Prices - Median ($1000's)	67.4	68.4	70.7	71.2	70.6	72.2	74.5	75.5	66.1	67.7	70.2	74.3	79.7
Percent Change - Year Ago	1.8	2.4	3.7	4.0	4.8	5.6	5.5	6.0	6.6	2.3	3.8	5.9	7.3
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	674	631	623	619	602	630	653	665	742	754	619	654	744
Percent of Household Income	25	23	22	22	21	21	21	21	29	28	22	21	22
New Single-Family Home Sales (thousands)	518	591	639	628	654	694	714	733	437	417	628	719	747
Percent Change - Year Ago	29.2	56.7	74.8	53.6	26.2	17.3	11.9	16.8	-19.9	-4.4	50.4	14.5	3.9
New Home Prices - Median ($1000's)	71.6	73.9	75.1	76.3	77.5	78.8	80.2	81.6	68.8	69.3	75.7	80.9	86.6
Percent Change - Year Ago	2.7	11.3	7.9	9.6	8.2	6.7	6.8	7.0	6.4	0.7	9.2	6.9	7.1
New Home Prices--Mean ($1000's, Quality Adjusted)	86.5	89.1	90.3	89.6	89.0	92.1	93.8	93.4	85.5	87.8	89.5	93.1	97.1
Percent Change - Year Ago	-0.9	0.9	1.7	2.3	2.9	3.4	3.9	4.2	8.8	2.8	1.9	4.0	4.3
New Mortgage Commitments ($ billions)	94.5	127.5	139.3	118.1	106.1	118.6	130.7	140.9	60.0	64.5	122.7	137.7	137.0
Percent Change - Year Ago	107.8	118.3	189.3	106.9	12.3	-7.0	-6.2	19.3	-31.2	7.6	90.2	12.2	-0.5
Mortgage Debt Outstanding ($ billions)	1,648	1,672	1,709	1,737	1,763	1,792	1,829	1,874	1,544	1,627	1,720	1,855	2,048
Homeowners' Equity ($ billions)	2,408	2,492	2,556	2,633	2,698	2,752	2,809	2,868	2,343	2,395	2,595	2,839	3,085
Housing Inventory (millions)	90.9	91.2	91.6	91.9	92.3	92.7	93.0	93.4	89.7	90.6	91.8	93.2	94.8
Private Housing Starts (thousands)	1,261	1,702	1,622	1,541	1,584	1,675	1,670	1,673	1,100	1,059	1,612	1,668	1,706
Single-Family	809	1,084	1,165	1,070	1,093	1,181	1,157	1,169	713	663	1,103	1,161	1,173
Multi-Family	452	618	457	471	492	495	513	504	386	395	509	507	533
Mobile Home Shipments (thousands)	239	281	256	277	287	294	305	307	240	239	275	304	323
Rental Vacancy Rate (%)	5.5	5.7	5.4	5.4	5.4	5.4	5.4	5.4	5.0	5.3	5.5	5.4	5.4
Unsold New Homes (% of sales)	47.9	41.8	46.7	49.6	51.6	55.0	56.6	56.8	75.4	65.2	47.4	56.4	62.0
Office Vacancy Rate (%)<1>	10.3	10.8	10.6	10.6	10.5	10.4	10.4	10.3	4.3	8.0	10.6	10.3	9.2
Industrial Vacancy Rate (%)<1>	4.8	4.8	5.5	5.4	5.4	5.3	5.3	5.2	3.7	4.4	5.4	5.2	4.5
New Commercial Building Construction (% Ch Value)	1.4	8.2	17.7	5.9	19.4	9.3	14.0	10.9	13.9	8.7	6.6	12.1	8.2
New Industrial Building Construction (% Ch Value)	-11.6	-35.5	-25.3	-10.6	-10.7	-12.0	9.4	22.3	22.0	-1.5	-19.9	-3.0	19.9
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.0	5.9	7.1	7.5	7.5	7.7	7.8	7.8	6.4	6.5	7.0	7.8	8.2
Money Supply (M1) (% change)	13.7	14.8	11.5	7.6	3.4	3.8	5.5	5.3	7.1	6.5	10.5	5.4	5.7
Money Supply (M2) (% change)	9.6	21.3	10.2	10.9	8.4	8.3	9.5	7.6	9.5	9.4	12.7	8.9	8.0
Total Time and Savings Deposits (% change)	2.1	-12.0	-1.6	4.9	11.0	10.8	10.7	11.5	8.8	7.0	-0.2	9.4	10.1
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	14.82	13.61	12.95	12.75	12.48	12.80	12.85	12.93	16.71	16.59	12.95	12.91	13.77
Real Mortgage Rate	11.11	7.90	7.38	8.45	7.20	7.27	7.35	7.35	7.85	12.19	7.73	7.24	7.44
Assumption Rate	10.80	10.47	10.02	9.83	9.76	10.11	10.23	10.37	11.00	10.94	10.02	10.24	10.57
Seller Take Back Mortgage Rate	11.90	11.32	10.57	10.43	10.21	10.39	10.56	10.77	11.80	12.35	10.63	10.71	10.95
Blended Rate	13.24	12.54	12.16	12.09	11.97	12.26	12.31	12.37	14.15	14.26	12.19	12.36	12.82
Corporate Bond Rate (AAA)	11.88	11.84	11.75	11.30	10.92	10.63	10.41	10.26	14.17	13.79	11.45	10.37	10.35
Government Bond Rate	10.31	9.96	9.48	9.21	9.07	9.32	9.31	9.16	14.34	12.96	9.43	9.22	9.82
Real Long-term Government Bond Rate	6.60	4.25	3.91	4.91	3.79	3.78	3.81	3.58	5.48	8.56	4.22	3.55	3.50
Federal Funds Rate	9.29	8.65	8.15	8.78	9.05	9.80	10.11	9.85	16.38	12.26	8.66	9.85	11.74
3 Month Treasury Bills	7.91	8.11	7.70	8.26	8.38	9.09	9.32	9.16	14.03	10.61	8.11	9.14	10.62
1 Year Treasury Bills	9.13	8.86	8.51	9.09	9.16	9.80	9.94	9.75	14.78	12.28	8.90	9.76	11.03
Commercial Paper Rate	8.80	8.34	7.93	8.80	9.14	10.32	10.60	10.40	15.33	11.89	8.56	10.38	12.21
Rate on Money Market Fund Shares	8.94	8.45	7.94	8.90	9.24	10.50	10.75	10.55	15.68	12.12	8.63	10.54	12.40
Prime Rate	11.96	10.88	10.28	10.57	11.09	12.10	12.19	12.09	18.87	14.86	10.70	12.03	13.15

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Aggregate Economy

The long-awaited and much-needed recovery of the U.S. economy is currently demonstrating surprising strength. During the second quarter of this year, Gross National Product (GNP) adjusted for inflation increased at an annualized rate of 8.7 percent. This is nearly three percentage points faster than the average for the second quarter of the past three recoveries. Despite this impressive performance, we continue to expect this recovery to be below-average in comparison to past recoveries. For the remainder of 1983 and through 1984 quarterly growth rates should taper off to the 3 to 5 percent range. By the fourth quarter of 1984, real GNP is expected to be 8.6 percent above the level of the fourth quarter of 1982. The comparable average of the past three recoveries is 9.7 percent.

This recovery is being held back by high long-term interest rates, interest rates above the inflation rate. For example, over the period from 1970 through 1980, the real Aaa corporate bond rate averaged just 1.6 percent compared to a current level of 7.5 percent. The primary cause of these high real interest rates is the prospect of federal budget deficits of $200 billion or more for several years. Overall, it is estimated that current and future deficits are adding 3 to 4 percentage points to long-term interest rates. And, because of the resulting depressed levels of investment, future growth rates of real GNP are expected to be one or more percentage points lower.

The economic recovery is now entering its second stage as the contribution of residential investment is waning while the contribution of consumption, particularly automobiles, appliances, furniture, televisions, and home computers, is on the rise. Real growth of residential investment surged to an annualized rate of 60.3 percent during the second quarter of this year, but should decline to half that rate in the third quarter and may be negative by the fourth quarter. In contrast, growth in expenditures on consumer durables should remain high well into 1984. The surge in consumption, especially during the second quarter, is attributed to a sharp rise in consumer confidence. With employment growing, inflation virtually stopped, the strong performance of the stockmarket, and rising real disposable income, consumers were and are much more willing and able to spend and incur debt.

Overall, investment in commercial and industrial structures should begin to grow modestly over the next three to six months and continue to grow through 1984 and 1985. Investment in short-lived assets such as business equipment, for which interest rates are less important, should continue at a strong pace through 1984 and 1985.

Much of the stimulus to the economy during the second and third quarters of this year is coming from a nearly $50 billion improvement in inventory investment for manufacturing and trade industries. During the spring, businesses reduced inventories at the same time that sales were rising. As a result, inventory-sales ratios dropped enough to warrant inventory accumulation.

Exports, which declined during the first half of 1983, are expected to rise during the next eighteen months, but should rise slower than imports. The record overvaluation of the U.S. dollar has caused U.S. exports to be priced out of some overseas markets and has made imports much cheaper.

After temporarily low rates of inflation during the first half of 1983, consumer prices should rise at an annual rate of five to six percent over the next eighteen months. Should the recovery continue despite high federal deficits, inflation will accelerate in 1985 and 1986.

The strength of the recovery has increased employment and lowered the unemployment rate. This trend should continue over the next eighteen months with the unemployment rate below 9 percent by the end of 1984.

Fiscal Policy and the Deficit

The current mix of federal spending and taxation policies should result in a deficit of $210 billion this year, rising to $220 billion by 1985. The federal government's demand for credit is expected to absorb one-third of total private savings during 1983, directly competing with the credit needs of businesses and consumers. Moreover, based on current law projections of federal receipts and expenditures, the deficit will remain in the $100 to $150 billion range when the economy approaches full employment later in the decade--the so-called structural deficit. This excessive stimulus provided by fiscal policy portends accelerating inflation in the future, an early end to the recovery, or both. Already there are signs that the recovery is slowing due to recent increases in long-term interest rates.

Clearly, there is an urgent need to alter fiscal policy so that the deficit is reduced. The REALTORS®' THREE-FOR-ALL Program consists of specific proposals for changing federal spending and taxation policies which will substantially reduce the deficit and thereby promote economic growth. The spending side component of the THREE-FOR-ALL Program is to change the indexing formula for federal entitlement programs from the full change in the Consumer Price Index (CPI) to the change in the CPI less three percentage points over the period from 1984 to 1988. This action alone should reduce federal outlays by nearly $100 billion over the period. Similarly, on the tax side the THREE-FOR-ALL Program would limit the indexing of tax brackets to the change in the CPI less three percentage points over the 1985 to 1988 period. This provision should raise nearly $60 billion in additional revenues over that period. The combined reduction in the deficit of these proposals will lead to declining interest rates which will induce further reductions in the deficit by promoting more rapid economic growth and by reducing the interest expense on the existing federal debt.

Monetary Policy and Interest Rates

After a full year of falling interest rates, rates are now heading upward. Since about mid-May long-term rates have risen nearly two percentage points while short-term rates have risen about one percentage point. The increase in interest rates is due to the clash between the credit needs of the federal government and the private sector and because evidence of excessive growth of the nation's money supply has raised fears of higher inflation in the future. During the first six months of 1983 the basic money supply (M1) increased at an annualized rate of 15 percent, well beyond the Federal Reserve Board's (FED) target growth range of 4 to 8 percent. Based on historical relationships between the rate of growth of the money supply and the level of economic activity, left unchecked this rate of growth could lead to a major resurgence of inflation in late 1984 or 1985.

The reappointment of Paul Volcker as Chairman of the FED has helped to allay fears that growth of the money supply will get out of hand. Chairman Volcker has announced a new target range of 5 to 9 percent for M1 while at the same time indicating that the growth of reserves to the banking system would be slowed somewhat so that this target range will be achieved. However, investors in long-term credit markets are demanding a premium in current yields to protect the purchasing power of their funds against this anticipated inflation. Given the pressure on interest rates from the federal deficit and the rapid growth of the money supply, interest rates should continue to trend upward for the foreseeable future.

Real Estate Markets

The rise in mortgage rates has taken a definite toll on the recovery of housing markets. Sales of existing homes were at a seasonally adjusted annual rate of 2,930,000 units in June, just 1 percent above the May level. Housing starts fell 2.9 percent in June to a seasonally adjusted annual rate of 1,747,000 units. This disappointing performance coincided with the first decline in housing affordability in 13 months. In June the Housing Affordability Index declined to 81.7--down 2.3 percentage points from May's index of 84.0. This means that a family earning the median income of $24,500 had 81.7 percent of the income needed to purchase the median-priced existing single-family home.

Due to the increase in mortgage interest rates, forecasts of future levels of resales and starts have been scaled back somewhat. For 1983 as a whole, about 2.8 million existing single-family homes should be sold, up 40 percent over 1982, while 1.6 million new housing units should be started, an increase of 53 percent over the 1982 level. In 1984, resales should remain at the 2.8 million unit level before sliding back to 2.6 million units in 1985 due to rising mortgage interest rates. Similarly, starts should remain at the 1.6 million unit level in 1984, but then retreat to 1.5 million units in 1985.

Prices of existing units continue to rise only slightly during this recovery period. In June, the median price of existing single-family homes rose to $72,300--just 4.2 percent higher than a year ago. A major factor behind this modest price increase is the fact that in June, 2.4 million existing units were on the market, 9.8 months supply at current sales rates. For 1983 as a whole, the median price of existing single-family homes is expected to rise just 3.1 percent, about the same as the overall rate of inflation. In contrast, the median price of new single-family homes sold in June was $77,200, 11.4 percent ahead of a year ago. Over the entire year, prices of new homes should be 9 to 10 percent higher than the 1982 level.

While the office and industrial vacancy rates are expected to peak later this year, it appears that the growth of the economy will reverse the steep decline in construction of new commercial and industrial structures. For the remainder of this year and through 1984 commercial construction should experience rapid improvement while the growth in industrial construction is expected to remain modest until late 1984 and 1985.

Table 1

U.S. ECONOMIC OUTLOOK

AUGUST 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1981	1982	1983	1984	1985
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,172	3,274	3,369	3,438	3,513	3,592	3,661	3,733	2,954	3,073	3,313	3,625	3,951
Percent Change	8.2	13.5	12.1	8.5	9.0	9.3	7.9	8.1	12.2	4.0	7.8	9.4	9.0
Percent Change (without inflation)	2.6	8.7	7.4	3.5	3.6	3.7	2.4	2.2	2.6	-1.9	3.0	4.1	3.0
Consumption	2.9	10.0	0.2	4.4	7.8	2.7	1.7	1.6	2.7	1.4	3.8	4.2	2.8
Durables	7.6	32.4	8.5	11.6	13.2	4.0	2.2	1.5	2.7	-0.9	11.9	9.3	4.2
Nondurables	3.2	5.9	3.2	2.8	5.3	3.0	2.8	1.5	1.9	0.5	3.0	3.6	2.2
Services	1.4	6.8	-4.7	3.4	8.0	2.0	0.7	1.6	3.3	2.9	2.1	2.9	2.9
Residential Investment	57.7	60.3	17.0	-11.8	-5.2	7.9	11.7	11.3	-5.2	-15.3	33.3	4.7	-0.3
Nonresidential Investment	-1.5	4.8	12.5	7.0	5.3	6.5	5.4	5.2	5.2	-4.7	-1.0	6.7	5.4
Structures	-13.9	-14.0	31.4	5.4	2.1	5.1	2.4	1.8	7.5	1.8	-4.8	5.4	2.5
Equipment	4.9	14.2	5.2	7.8	6.8	7.2	6.7	6.8	4.2	-7.5	0.8	7.3	6.7
Exports	2.4	-8.7	4.5	1.9	1.9	0.7	0.6	1.8	0.4	-7.8	-7.8	1.1	4.1
Imports	12.1	27.0	2.7	9.5	9.0	5.9	4.4	4.2	7.3	1.4	4.2	7.8	4.8
Government Purchases	-8.8	-1.0	16.2	1.8	-6.9	3.7	2.7	1.9	0.8	1.8	2.2	1.5	1.6
Consumption (% of GNP)	66.2	66.4	65.3	65.4	66.1	65.9	65.8	65.7	63.2	65.3	65.8	65.9	65.8
Residential Investment (% of GNP)	3.1	3.4	3.4	3.3	3.2	3.3	3.3	3.4	2.9	2.5	3.3	3.3	3.2
Nonresidential Investment (% of GNP)	10.7	10.6	10.8	10.8	10.9	11.0	11.0	11.1	11.5	11.2	10.7	11.0	11.3
Inventory Change ($ billions)	-39.4	-10.6	8.9	13.7	15.2	22.3	23.5	24.1	18.4	-24.6	-6.9	21.3	36.0
Mfg. Capacity Utilization Rate (%)	71	74	76	76	77	77	77	77	79	71	74	77	78
Auto Sales (millions of units)	8.4	9.0	9.3	10.0	10.1	10.1	10.2	10.4	8.5	8.0	9.2	10.2	10.5
Manufacturing Industrial Production (% change)	12.2	20.0	13.2	5.9	4.8	4.6	3.7	3.3	2.4	-8.5	6.2	6.6	4.2
Common Market	4.4	2.1	-0.6	3.5	1.8	2.1	1.0	2.6	-1.5	-1.8	-0.4	1.8	1.6
Japan	3.5	11.9	7.7	-5.7	2.4	5.2	5.7	1.3	3.1	1.1	3.5	2.9	4.8
Employment (millions)	99.1	99.9	100.9	101.9	102.8	103.6	104.2	104.7	100.4	99.5	100.4	103.8	106.2
Unemployment Rate (%)	10.4	10.1	9.5	9.2	8.9	8.7	8.6	8.7	7.6	9.7	9.8	8.9	8.7
Disposable Income per Household (average)	28,033	28,549	29,624	30,200	30,828	31,360	31,851	32,387	25,837	27,206	29,102	31,606	34,100
Percent Change -- Year Ago (w/o inflation)	0.8	1.1	4.3	4.7	5.0	5.0	2.4	1.9	2.2	-0.4	2.7	3.5	2.1
Total Taxes per Household (average)	13,483	13,946	13,908	14,201	14,609	14,901	15,194	15,464	13,187	13,205	13,885	15,042	16,221
Percent Change -- Year Ago	2.8	5.2	5.3	7.2	8.3	6.9	9.2	8.9	11.7	0.1	5.1	8.3	7.8
Percent of Disposable Income	48.1	48.8	46.9	47.0	47.4	47.5	47.7	47.7	51.1	48.5	47.7	47.6	47.6
Household Debt as Percent of Disposable Income	78.5	78.9	77.4	77.4	77.3	77.8	78.4	79.1	78.4	78.1	78.0	78.1	80.2
Consumer Price Inflation (CPI)	-0.4	4.2	5.0	4.8	5.5	5.5	5.4	5.7	10.3	6.2	3.2	5.2	6.2
Gross National Product Inflation (GNP Deflator)	5.5	4.5	4.4	4.9	5.2	5.4	5.4	5.8	9.4	6.0	4.6	5.1	5.8
Personal Consumption Inflation	2.1	5.4	3.7	4.5	5.3	5.1	5.1	5.4	8.4	5.8	4.1	4.9	5.7
Residential Construction Inflation	11.3	4.1	5.9	7.1	6.9	7.2	7.4	7.7	7.0	2.8	3.7	6.8	7.9
Nonresidential Construction Inflation	-2.1	-0.6	5.0	5.7	7.0	7.8	8.4	8.5	11.6	4.7	0.2	6.4	8.6
Producers Price Inflation (WPI)	-2.5	1.4	6.6	5.8	6.5	6.7	7.0	7.9	9.1	2.0	1.6	6.2	7.6
Compensation per Manhour (% change)	6.0	4.1	7.3	7.2	8.3	7.2	7.4	7.4	9.7	7.3	5.9	7.3	8.0
Productivity (% change)	4.9	4.0	3.6	2.8	2.6	2.3	2.0	1.9	1.4	0.0	3.1	2.7	1.7
Unit Labor Cost (% change)	1.3	0.0	3.5	4.3	5.6	4.8	5.2	5.5	8.1	7.2	2.7	4.5	6.2
Unit Capital Cost (% change)	8.4	7.5	6.4	5.5	4.8	4.3	4.0	3.9	10.7	9.8	6.9	4.2	4.0
Before Tax Corporate Profits ($ billions)<1>	182	208	224	229	232	242	249	256	251	190	211	245	282
Corporate Tax Liability	62	71	74	75	76	78	81	83	83	59	70	80	90
'Windfall Profits' Tax Receipts	12	10	11	11	11	12	11	11	24	16	11	11	14
After Tax Profits	108	127	139	142	145	153	156	161	144	115	129	154	177
Inventory Valuation Adjustment	-2	-9	-10	-15	-17	-19	-20	-24	-24	-8	-9	-20	-27
Capital Consumption Adjustment	14	23	27	28	28	28	28	27	-11	-1	23	28	24
Profits from Current Production (with IVA, CCA)	120	141	156	155	156	161	164	164	110	106	143	161	174
Adjusted for Inflation (82:1 base)	115	133	146	143	142	145	146	144	114	104	134	144	147
Percent Change - Year Ago	13.0	28.2	38.9	36.7	23.5	9.0	-0.3	0.8	10.3	-8.9	29.3	7.4	1.9
Per Unit of Output (% of GNP)	3.8	4.3	4.6	4.5	4.4	4.5	4.5	4.4	3.7	3.4	4.3	4.5	4.4
Effective Corporate Tax Rate (%)<1>	34	34	33	33	33	33	34	34	43	37	34	34	35
Federal Tax Receipts (Unified basis)	559	701	613	575	692	787	693	652	620	609	608	681	749
Federal Expenditures (Unified basis)	803	798	799	862	883	896	859	934	698	740	817	893	972
Surplus or Deficit (Unified basis)	-244	-97	-186	-288	-291	-109	-166	-282	-78	-131	-209	-212	-223
% of GNP	7.7	3.0	5.5	8.4	8.3	3.0	4.5	7.6	3.7	4.2	6.1	5.9	5.6
% of Personal Savings	200.3	108.2	115.9	176.4	198.2	72.6	107.3	173.9	83.0	106.1	150.2	138.0	131.2
% of Total Private Savings	45.0	18.2	30.0	46.1	47.3	17.3	25.8	42.8	21.7	25.0	34.8	33.3	32.0

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

Table 2

REAL ESTATE AND FINANCIAL MARKETS

AUGUST 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1981	1982	1983	1984	1985
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,583	2,853	2,884	2,843	2,825	2,823	2,823	2,850	2,419	1,990	2,791	2,830	2,601
Percent Change - Year Ago	31.1	46.1	52.4	33.3	9.4	-1.0	-2.1	0.3	-18.6	-17.7	40.4	1.4	-8.1
Dollar Volume (billions)	207.9	236.3	239.4	232.0	229.7	234.8	238.4	241.4	189.4	160.2	228.9	236.1	225.5
Existing Home Prices - Median ($1000's)	68.4	70.1	70.8	70.1	70.2	72.1	73.5	73.9	66.4	67.7	69.9	72.4	76.0
Percent Change - Year Ago	2.4	2.9	3.4	4.0	2.6	2.9	3.7	5.4	6.8	2.1	3.1	3.6	5.0
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	631	622	665	651	672	687	697	701	742	754	642	689	745
Percent of Household Income	23	22	23	22	22	23	22	22	29	28	23	22	22
New Single-Family Home Sales (thousands)	605	645	637	629	633	646	650	643	437	417	629	643	590
Percent Change - Year Ago	60.2	76.6	55.8	21.4	4.7	0.2	2.0	2.1	-19.9	-4.4	50.7	2.2	-8.3
New Home Prices - Median ($1000's)	73.4	75.3	76.7	78.2	79.7	81.4	83.1	85.0	68.8	69.3	75.9	82.3	89.8
Percent Change - Year Ago	10.5	8.1	10.2	9.2	8.7	8.1	8.4	8.6	6.4	0.7	9.5	8.5	9.1
New Home Prices--Mean ($1000's, Quality Adjusted)	89.1	90.8	90.9	92.5	94.3	96.8	97.2	99.0	85.5	87.8	90.8	96.8	104.0
Percent Change - Year Ago	0.9	2.3	3.8	6.9	5.8	6.6	6.9	7.0	8.8	2.8	3.4	6.6	7.4
New Mortgage Commitments ($ billions)	150.0	148.7	126.6	154.3	190.4	227.7	214.5	228.3	60.0	64.5	144.9	215.2	253.9
Percent Change - Year Ago	156.8	208.8	121.8	63.3	26.9	53.2	69.4	48.0	-31.2	7.6	124.6	48.5	18.0
Mortgage Debt Outstanding ($ billions)	1,680	1,647	1,697	1,744	1,795	1,854	1,917	1,983	1,544	1,628	1,692	1,887	2,155
Homeowners' Equity ($ billions)	2,478	2,539	2,621	2,694	2,763	2,827	2,893	2,962	2,343	2,393	2,583	2,861	3,144
Housing Inventory (millions)	91.2	91.6	92.0	92.3	92.7	93.1	93.4	93.8	89.7	90.6	91.8	93.3	94.8
Private Housing Starts (thousands)	1,694	1,684	1,550	1,542	1,590	1,628	1,708	1,701	1,084	1,061	1,618	1,657	1,515
Single-Family	1,079	1,097	1,051	1,024	1,060	1,077	1,151	1,135	705	662	1,063	1,106	1,074
Multi-Family	615	587	499	518	529	551	556	566	379	399	555	551	441
Mobile Home Shipments (thousands)	281	296	301	316	334	353	363	370	240	239	299	355	352
Rental Vacancy Rate (%)	5.7	5.4	5.4	5.4	5.3	5.3	5.3	5.3	5.0	5.3	5.5	5.3	5.4
Unsold New Homes (% of sales)	40.9	40.6	46.2	50.0	53.4	54.7	55.2	56.5	75.4	65.2	44.4	54.9	61.6
Office Vacancy Rate (%)<1>	10.8	11.7	11.8	11.9	11.6	11.2	10.6	10.0	4.3	8.0	11.6	10.8	10.0
Industrial Vacancy Rate (%)<1>	4.8	4.9	5.0	5.2	5.1	4.9	4.7	4.6	3.7	4.4	5.0	4.8	4.5
New Commercial Building Construction (% Ch Value)	-5.6	-26.6	77.7	24.9	14.6	22.1	17.8	13.9	14.2	9.0	1.5	21.2	13.7
New Industrial Building Construction (% Ch Value)	-38.5	-32.5	0.0	10.4	10.0	17.9	21.0	13.5	22.0	2.5	-21.4	8.4	12.5
FINANCIAL MARKETS													
Personal Savings Rate (%)	5.4	3.9	6.7	6.7	5.9	5.9	6.0	6.1	6.6	5.8	5.7	6.0	6.1
Money Supply (M1) (% change)	14.8	12.8	7.9	7.0	7.5	7.4	7.7	7.4	7.1	6.5	11.0	7.8	7.5
Money Supply (M2) (% change)	21.9	10.6	9.3	9.1	9.3	9.3	10.1	9.9	9.5	9.4	12.8	9.5	8.5
Total Time and Savings Deposits (% change)	-11.8	-1.1	3.3	10.0	10.0	10.8	12.0	11.4	8.8	7.0	-0.4	8.9	10.4
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	13.6	13.0	13.9	13.7	14.2	14.1	14.0	14.0	16.7	16.6	13.5	14.1	14.5
Real Mortgage Rate	8.1	8.6	9.4	8.8	9.0	8.7	8.6	8.2	8.0	12.2	8.7	8.6	8.4
Assumption Rate	10.1	10.1	9.9	9.8	10.1	10.2	10.4	10.5	11.0	10.8	10.0	10.3	10.8
Seller Take Back Mortgage Rate	10.9	10.6	11.1	11.0	11.3	11.3	11.2	11.2	11.8	11.8	10.9	11.3	11.6
Blended Rate	12.5	12.2	12.8	12.7	13.1	13.1	13.1	13.1	14.1	14.3	12.6	13.1	13.4
Corporate Bond Rate (AAA)	11.8	11.6	11.9	12.1	12.2	12.2	12.3	12.3	14.2	13.8	11.9	12.2	12.7
Government Bond Rate	10.0	10.1	11.0	11.2	11.2	10.9	10.7	10.9	14.3	13.0	10.5	10.9	11.1
Real Long-term Government Bond Rate	4.5	5.6	6.6	6.3	6.0	5.5	5.3	5.0	5.6	8.6	5.7	5.5	5.1
Federal Funds Rate	8.7	8.8	9.7	9.7	10.1	9.8	9.3	9.5	16.4	12.3	9.2	9.7	10.3
3 Month Treasury Bills	8.1	8.4	9.5	9.6	9.9	9.4	9.0	9.1	14.0	10.6	8.9	9.3	9.7
1 Year Treasury Bills	8.9	9.2	10.2	10.5	10.9	10.5	10.1	10.3	14.8	12.3	9.7	10.5	10.9
Commercial Paper Rate	8.3	8.6	9.6	10.1	10.4	9.8	9.3	9.5	15.3	11.9	9.1	9.7	10.2
Rate on Money Market Fund Shares	8.5	8.7	9.8	10.2	10.6	9.9	9.4	9.7	15.7	12.1	9.3	9.9	10.4
Prime Rate	10.9	10.5	11.0	11.3	11.7	11.4	11.0	10.9	18.9	14.9	10.9	11.3	11.6

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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SEPTEMBER 1982

U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Aggregate Economy

The recovery is turning out to be cyclically sharper than previously anticipated. Growth of Gross National Product (GNP) adjusted for inflation has been stronger than previous recoveries during its initial stages but is expected to be weaker in the later stages. Growth of real GNP during the second quarter of this year has been revised upward from 8.7 percent to 9.2 percent. The increase in real GNP during the third quarter is expected to decline to 8.5 percent due to increases in interest rates since mid-May. Real growth should then decline sharply during the fourth quarter and remain in the 2 to 3 percent range during each quarter of 1984.

As seen in Table 1, growth of real GNP is expected to be above the average of the four preceding recoveries during the first four quarters of the recovery. Thereafter, real growth should drop well below that average. Over the first two years of the current recovery real GNP is expected to increase 9.0 percent compared to an average of 11.3 percent for the four preceding recoveries.

Table 1

Index of Growth of Real GNP
During Recovery Period*

	First Quarter of Overall Recovery 83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4
Current Recovery	1.006	1.029	1.050	1.062	1.067	1.075	1.083	1.090
Average of Four Preceding Recoveries**	1.013	1.025	1.038	1.053	1.066	1.086	1.097	1.113

*Base values for indices are real GNP in the quarter immediately preceding the first quarter of overall recovery.

**Covers 61:1 to 62:4, 71:1 to 72:4, 75:2 to 77:1, and 80:3 to 81:3. 81:4 to 82:2 are not included since economy re-entered recession.

This sharp cyclical path of the current recovery is due to the expected behavior of interest rates over the recovery period. As with the current recovery, past recoveries were preceded by substantial declines in interest rates which stimulated sales of homes and consumer durables, particularly automobiles. The surge in economic activity typically led to a modest rise in both short-term interest rates such as the rate on three-month Treasury bills and long-term rates such as mortgage rates during the early stages of recovery. However, this modest blip in rates tended to subside by the middle of the recovery after which rates remained essentially constant for the next year.

The path of interest rates during the current recovery is expected to be substantially different due to the burden of financing $200+ billion federal deficits which are absorbing one-third of total private savings. As with past recoveries, rates have risen due to the increase in economic activity (and tightening of credit growth by the FED) during the second and third quarters. However, because of the pressure on credit markets due to the federal deficit, these increases are not expected to subside. In fact, rates are expected to continue rising at least through the end of this year as private demands for credit increase. Further, these deficits are keeping real interest rates, interest rates less the rate of inflation, at more than double their levels during these "normal" recoveries.

Table 2

Behavior of Selected Interest Rates During Economic Recovery

		83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4
		New Home Mortgage Commitment Rate							
Current Recovery	Nominal	13.6	13.0	13.7	13.9	14.2	14.1	13.9	13.8
	Real*	8.1	9.6	7.8	6.8	7.9	8.7	8.9	8.8
"Normal"** Recovery	Nominal	7.5	7.6	7.7	7.6	7.5	7.5	7.5	7.5
	Real	4.0	2.6	3.4	5.0	3.4	4.4	4.0	3.0
		Rate on Three Month Treasury Bills							
Current Recovery	Nominal	8.1	8.4	9.3	9.6	9.4	9.1	8.9	9.1
	Real	2.6	4.9	3.5	2.7	3.1	3.8	4.2	4.4
"Normal" Recovery	Nominal	3.9	4.3	4.3	3.9	3.8	3.9	3.9	4.0
	Real	0.3	-0.7	0.0	1.1	-0.4	0.8	0.4	-0.3

*Nominal rate less the annualized percent change of the GNP deflator.

**Covers 61:1 to 62:4, 71:1 to 72:4, and 75:2 to 77:1.

The major contribution to economic growth this third quarter of the recovery is bei provided by consumption expenditures, particularly expenditures for consumer durable In fact, during the second quarter increases in consumption outstripped increases i disposable income, resulting in the lowest personal saving rate since 1950. Growth in consumption expenditures will remain strong through the end of 1983 and then taper off gradually during 1984. While consumption is now leading the recovery, its current contribution to growth in real GNP is substantially less than at the same stage of previous recoveries.

The second largest contribution to current growth is due to a $12 billion increase in business inventories. At this stage in two of the three preceding recoveries, businesses were continuing to reduce inventories, resulting in a drag on the economy. Businesses are expected to continue to build up inventories through the end of 1985.

A substantial increase in government purchases of goods and services, particularly by the federal government, is also providing substantial stimulus. After declining during the first half of the year, government purchases are expected to increase at an annualized rate of 7.8 percent during the third quarter before dropping to the 2-1/2 to 3-1/2 percent range through the end of 1984. The current contribution of government purchases to the recovery is comparable to past recoveries.

The growth of residential investment, which peaked at an annualized rate of 75.9 percent during the second quarter, is expected to decline precipitously to 34.7 percent during the third quarter in the wake of a 1.5 percentage point increase in mortgage rates from May to August. With mortgage rates expected to rise another 1/2 percentage point through the first quarter of 1984, growth in residential investment is expected to turn negative during the next two quarters. The current contribution of residential investment to economic growth is substantially less than in the three preceding recoveries.

Growth in investment in producers' durable equipment during the second quarter has been revised upward to an annualized rate of 16.6 percent. During the third quarter, growth in this form of investment is expected to decline to 8.6 percent and then level off at the 6 to 7 percent range through 1984. Investment in commercial and industrial structures continues to decline during the third quarter due to high real long-term interest rates and high commercial and industrial vacancy rates. However, rapid growth of the economy is resulting in the rapid absorption of those vacancies so that starting in the fourth quarter of this year and through 1984 growth in investment in nonresidential structures should range between 4 and 6 percent. Overall, while the contribution of nonresidential investment to the current recovery is modest at this point it is significantly greater than at the same stage in previous recoveries.

Table 3

Percent of Growth in Real GNP Contributed by
Various Sectors of the Economy During the Third Quarter of Recovery

	Current Recovery	Four Preceding Recoveries			
	83:3	81:1	75:4	71:3	61:3
Consumption	37.5%	42.2%	70.5%	56.3%	15.6%
Durables	10.5	19.9	29.5	31.0	11.5
Residential Investment	14.5	-0.1	25.0	39.1	18.8
Nonresidential Investment	8.0	16.1	3.6	1.1	2.1
Net Change in Inventories	21.8	23.9	-29.5	-39.1	49.0
Net Exports	-1.8	8.7	13.4	16.1	-3.1
Government Purchases	20.0	9.6	17.0	26.4	17.7
Federal	15.6	9.6	0.9	17.2	8.3
State and Local	4.7	0.0	16.1	9.2	9.4
Total	100.0	100.0	100.0	100.0	100.0

The fact that imports are greater than and growing faster than exports is placing a drag on the economy and is expected to continue to do so for the next several years. The dollar's strength has made American goods more expensive for foreign currency holders. At the same time, the recovery in the U.S. is fueling demand for imported goods and services while recovery is coming later for our major trading partners, keeping demand for U.S. exports relatively weak. Following a $43 billion trade deficit in 1982, the U.S. trade deficit is expected to swell to near $70 billion in 1983 and could reach $100 billion in 1984 if the dollar doesn't weaken.

Despite the strength of the recovery the rate of consumer price inflation appears to have stabilized at the 5 percent level. During July the Consumer Price Index (CPI) increased at an annual rate of 4.9 percent. During the same month two years ago the CPI increased at an annualized rate of 14.7 percent. Inflation should begin to accelerate in 1984, reaching the six percent level by the fourth quarter. At this point, the only serious threat of more rapid inflation is that prices for farm products could rise due to the prolonged heat wave this summer.

Growth of the economy continues to stimulate increases in employment. In August, the number of employed persons increased by nearly 300,000 to 101.6 million in a seasonally adjusted annual rate basis. For all of 1983, total employment should increase by 1 million jobs or about 1 percent with larger gains in 1984 and 1985. The unemployment rate, which dropped to 9.5 percent in July, remained at 9.5 percent in August. By the end of 1983 the unemployment rate should fall to 9 percent and approach 8 percent by the end of 1984. In another positive development, the median duration of unemployment in August was 8.9 weeks, down from the previous peak of 12.3 weeks in May of this year.

Monetary Policy and Interest Rates

In response to what it perceived to be excessive growth in the nation's basic money supply, in May and July of this year the Federal Open Market Committee of the Federal Reserve Board (FED) restricted the growth of reserves to the commercial banking system. This reduced the banking system's ability to write new loans and, in concert with the huge demands for credit of the federal government, has led to increases in short-term interest rates of about 1-1/2 percentage points since mid-May. Long-term rates, already high due to massive current and future federal deficits, have also risen about 1-1/2 percentage points over the same period as the rapid growth in the money supply lead to expectations of sharply higher rates of inflation in the future.

The FED's tightening has had the desired effect. The nation's basic money supply (M1) actually declined for four consecutive weeks. In fact, it now looks as though the growth of M1 for the last six months of 1983 will fall at the lower end of the 5 to 9 percent target range unless the FED loosens up on the reigns somewhat this fall. The FED's current policy stance is unnecessarily restrictive in light of evidence that now that inflation has substantially subsided and many financial institutions now offer interest on checking accounts, both households and businesses wish to hold larger amounts of cash than they have in the recent past. In light of these changes, the rapid growth of the money supply during the first half of this year should not be viewed as inflationary.

Both long-term and short-term interest rates should continue to rise through the end of this year as the economy expands and private credit demands come into increasing conflict with the credit needs of the federal government and the FED's restrictive policy stance. Mortgage rates should reach 14 percent by the fourth quarter of this year while

the yield on 3-month Treasury bills should rise to around 9-3/4 percent. During 1984 interest rates should plateau at those levels, moving up and down within a narrow range. By 1985 the growing clash between public and private credit needs should cause a further rise in rates with mortgage rates approaching 14.5 percent and the rate on 3-month Treasury bills edging over 10 percent.

Real Estate Markets

The 1.5 percentage point rise in both conventional and FHA/VA mortgage interest rates since mid-May has taken all the steam out of the housing recovery. Existing home sales in July were at a seasonally adjusted annual rate of 2,810,000 units, down 4.4 percent from the June level. Housing starts fell 0.6 percent in July to a seasonally adjusted annual rate of 1,741,000 units after falling 3.0 percent in June. New home sales fell 6.5 percent in July to a seasonally adjusted annual rate of 620,000 units.

For 1983 as a whole 2.8 million existing homes should change hands, an increase of 40 percent over the 1982 level. However, with mortgage rates at 14 percent and higher, existing home sales are expected to retreat to 2.6 million units in 1984 and 2.4 million units in 1985. Similarly, for all of 1983 about 1.6 million housing units should be started with starts declining to 1.5 million units in 1984 and 1985.

In July the median price of existing units sold rose just $200 to $71,600--3.5 percent above a year ago. During the same month the median price of new homes fell by $1,100 to $75,000--5.1 percent ahead of a year ago. For 1983 as a whole sales prices of existing single-family homes should rise by 3 to 4 percent, roughly equal to the overall rate of inflation. New home prices are expected to rise about 10 percent for full-year 1983.

Despite a high and still rising office vacancy rate, commercial construction appears to have bottomed out and should rebound strongly by the end of 1983. The growing economy is rapidly absorbing vacant commercial space and the sharp increase in housing starts during te first half of the year has promoted a good deal of new commercial construction. In contrast industrial construction should continue to decline through the third quarter of this year and not experience a strong turnaround until early 1984. From that point through the end of 1985 commercial and industrial contruction should experience strong growth and provide substantial stimulus to the entire economy.

Table 4

U.S. ECONOMIC OUTLOOK

SEPTEMBER 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1981	1982	1983	1984	1985
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,172	3,270	3,386	3,484	3,553	3,629	3,699	3,768	2,954	3,073	3,328	3,662	3,967
Percent Change	8.2	13.0	15.0	12.1	8.2	8.7	8.0	7.8	12.2	4.0	8.3	10.0	8.3
Percent Change (without inflation)	2.6	9.2	8.5	4.7	1.8	3.2	2.9	2.6	2.6	-1.9	3.4	4.0	2.5
Consumption	2.9	9.7	4.6	4.5	2.8	2.7	2.2	2.3	2.7	1.4	4.4	3.6	2.3
Durables	7.6	32.0	7.8	9.9	4.6	3.5	3.5	4.5	2.7	-0.9	11.6	7.1	3.0
Nondurables	3.2	5.8	4.8	3.3	2.1	2.4	1.6	1.5	1.9	0.5	3.2	2.8	1.9
Services	1.4	6.5	3.4	3.8	2.8	2.6	2.2	2.3	3.3	2.9	3.1	3.1	2.5
Residential Investment	57.7	75.9	33.1	-7.8	-6.7	-2.1	-0.6	-1.3	-5.2	-15.3	38.5	3.0	-1.2
Nonresidential Investment	-1.5	6.1	4.1	7.1	6.1	5.9	5.6	5.9	5.2	-4.7	-1.7	5.9	6.0
Structures	-13.9	-14.9	-5.3	6.9	6.0	4.2	4.2	4.2	7.5	1.8	-8.8	2.6	4.0
Equipment	5.0	16.6	8.6	7.2	6.2	6.6	6.2	6.6	4.2	-7.5	1.6	7.4	6.7
Exports	2.4	-8.2	-2.0	3.4	6.3	4.4	4.5	4.9	0.4	-7.8	-8.3	3.1	5.3
Imports	12.1	24.6	7.2	8.0	4.7	5.3	5.1	4.7	7.3	1.4	4.3	6.9	4.5
Government Purchases	-4.8	-1.4	7.8	3.5	2.7	3.0	2.4	2.4	0.6	1.8	1.3	2.8	2.0
Consumption (% of GNP)	66.2	66.3	65.7	65.7	65.8	65.7	65.6	65.6	63.2	65.3	66.0	65.7	65.6
Residential Investment (% of GNP)	3.1	3.4	3.6	3.5	3.4	3.4	3.4	3.3	2.9	2.5	3.4	3.4	3.3
Nonresidential Investment (% of GNP)	10.7	10.7	10.5	10.6	10.7	10.8	10.9	10.9	11.5	11.2	10.6	10.8	11.2
Inventory Change ($ billions)	-39.4	-11.9	0.4	11.1	10.7	14.0	18.4	18.7	18.4	-24.6	-10.0	15.4	13.3
Mfg. Capacity Utilization Rate (%)	71	74	76	77	77	78	78	78	79	71	75	78	79
Auto Sales (millions of units)	8.4	9.2	9.4	10.0	10.1	10.2	10.2	10.4	8.5	8.0	9.3	10.2	10.6
Manufacturing Industrial Production (% change)	12.2	20.3	17.7	7.1	2.9	3.1	3.9	4.3	2.4	-8.5	6.9	6.6	4.1
Common Market	5.4	1.1	-0.5	3.6	1.7	2.0	0.8	2.4	-1.5	-1.8	-0.3	1.7	1.7
Japan	3.5	6.8	8.1	6.5	8.6	3.8	1.8	2.9	3.1	1.1	3.4	5.9	4.6
Employment (millions)	99.1	99.9	101.0	102.0	102.9	103.6	104.2	104.8	100.4	99.5	100.5	103.9	106.1
Unemployment Rate (%)	10.4	10.1	9.4	9.0	8.7	8.6	8.5	8.5	7.6	9.7	9.7	8.6	8.5
Disposable Income per Household (average)	28,033	28,551	29,626	30,368	30,954	31,435	31,919	32,403	25,837	27,206	29,145	31,678	34,057
Percent Change -- Year Ago (w/o inflation)	0.8	1.1	3.9	4.4	4.4	4.1	2.1	1.5	2.2	-0.4	2.6	3.0	1.9
Total Taxes per Household (average)	13,483	14,015	14,036	14,440	14,798	14,999	15,250	15,477	13,187	13,205	13,993	15,131	16,129
Percent Change -- Year Ago	2.8	5.7	6.3	9.0	9.8	7.0	8.6	7.2	11.7	0.1	6.0	8.1	6.6
Percent of Disposable Income	48.1	49.1	47.4	47.5	47.8	47.7	47.8	47.8	51.1	48.5	48.0	47.8	47.4
Household Debt as Percent of Disposable Income	78.5	78.5	77.5	77.5	77.9	78.5	79.0	79.6	78.4	78.1	78.0	78.7	80.3
Consumer Price Inflation (CPI)	-0.4	4.2	6.2	6.6	6.5	5.8	5.3	5.2	10.3	6.2	3.5	6.0	6.4
Gross National Product Inflation (GNP Deflator)	5.5	3.5	5.9	7.1	6.3	5.4	5.0	5.0	9.4	6.0	4.7	5.8	5.6
Personal Consumption Inflation	2.1	5.0	5.7	6.3	5.8	5.2	4.8	4.6	8.4	5.8	4.4	5.5	5.5
Residential Construction Inflation	11.3	-2.2	7.0	8.8	7.8	6.6	6.2	6.2	7.0	2.8	2.7	6.7	7.2
Nonresidential Construction Inflation	-2.1	-0.5	6.6	7.2	6.4	6.5	7.2	7.0	11.6	4.7	0.5	6.3	7.9
Producers Price Inflation (WPI)	-2.4	1.4	6.4	8.8	7.8	6.7	6.0	5.9	9.1	2.0	1.7	6.9	6.8
Compensation per Manhour (% change)	7.0	4.5	10.1	9.7	6.6	5.6	5.8	5.7	9.7	7.9	6.8	7.1	7.7
Productivity (% change)	3.6	4.4	2.3	2.9	2.9	2.5	2.2	2.0	1.9	0.0	2.7	2.7	1.8
Unit Labor Cost (% change)	3.1	0.3	7.5	6.5	3.6	3.0	3.5	3.6	7.7	7.9	4.0	4.3	5.7
Unit Capital Cost (% change)	8.4	7.6	6.6	5.9	5.4	5.1	4.9	4.8	10.7	9.8	7.1	5.0	4.7
Before Tax Corporate Profits ($ billions)<1>	182	209	223	235	247	252	256	261	251	190	212	254	266
Corporate Tax Liability	62	75	73	78	83	82	84	85	83	59	72	84	83
'Windfall Profits' Tax Receipts	12	10	11	11	11	12	11	11	24	16	11	11	14
After Tax Profits	108	124	139	145	153	158	161	164	144	115	129	159	169
Inventory Valuation Adjustment	-2	-10	-14	-26	-27	-24	-21	-21	-24	-8	-13	-23	-27
Capital Consumption Adjustment	14	25	31	36	40	46	51	56	-11	-1	27	48	65
Profits from Current Production (with IVA, CCA)	120	140	156	156	166	180	191	199	110	106	143	184	206
Adjusted for Inflation (82:1 base)	115	132	145	143	150	161	168	173	114	104	134	163	173
Percent Change - Year Ago	13.0	27.3	38.3	36.8	30.7	21.5	15.7	21.4	10.3	-8.9	29.0	21.9	6.1
Per Unit of Output (% of GNP)	3.8	4.3	4.6	4.5	4.7	5.0	5.2	5.3	3.7	3.4	4.3	5.0	5.2
Effective Corporate Tax Rate (%)<1>	34	35	33	34	34	32	31	31	43	37	34	32	29
Federal Tax Receipts (Unified basis)	559	666	621	589	603	790	694	649	620	609	609	684	742
Federal Expenditures (Unified basis)	803	783	795	856	886	896	858	932	698	740	809	893	972
Surplus or Deficit (Unified basis)	-244	-117	-174	-268	-283	-106	-164	-283	-78	-131	-201	-209	-230
% of GNP	7.7	3.6	5.1	7.7	8.0	2.9	4.4	7.5	3.7	4.2	6.0	5.7	5.8
% of Personal Savings	200.3	126.6	135.0	199.3	205.4	77.9	118.2	198.9	83.0	106.1	165.3	150.1	140.9
% of Total Private Savings	45.0	21.9	29.5	44.7	45.9	16.7	25.2	42.4	21.7	25.0	35.3	32.6	32.4

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

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Table 5

REAL ESTATE AND FINANCIAL MARKETS — SEPTEMBER 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1981	1982	1983	1984	1985
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,583	2,853	2,819	2,760	2,672	2,641	2,604	2,547	2,417	1,987	2,754	2,616	2,434
Percent Change - Year Ago	31.1	46.1	48.9	29.4	3.4	-7.4	-7.6	-7.7	-18.7	-17.8	38.6	-5.0	-6.9
Dollar Volume (billions)	207.9	236.3	233.9	225.3	217.8	220.6	220.3	214.1	188.3	159.7	225.9	218.2	212.4
Existing Home Prices - Median ($1000's)	68.4	70.1	70.8	70.1	70.4	72.4	73.6	73.3	66.1	67.7	69.9	72.4	76.4
Percent Change - Year Ago	2.4	2.9	3.4	4.1	2.9	3.3	3.9	4.5	6.6	2.3	3.2	3.7	5.5
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	631	622	659	660	676	690	692	685	742	754	643	686	737
Percent of Household Income	23	22	23	22	22	23	22	22	29	28	23	22	22
New Single-Family Home Sales (thousands)	605	644	639	622	598	590	579	570	437	417	627	584	545
Percent Change - Year Ago	60.3	76.3	56.3	20.0	-1.1	-8.4	-9.3	-8.3	-19.9	-4.4	50.3	-6.8	-6.7
New Home Prices--Median ($1000's)	73.3	75.7	77.9	80.1	81.8	83.4	85.0	86.5	68.8	69.3	76.7	84.2	91.2
Percent Change - Year Ago	10.4	8.8	12.0	11.8	11.7	10.2	9.0	8.0	6.4	0.7	10.8	9.7	8.4
New Home Prices--Mean ($1000's, Quality Adjusted)	89.0	88.8	88.5	87.8	91.1	91.6	91.8	91.6	85.5	87.8	88.5	91.5	95.9
Percent Change - Year Ago	0.8	0.0	1.0	1.8	2.4	3.2	3.7	4.3	8.8	2.8	0.8	3.4	4.8
New Mortgage Commitments ($ billions)	143.6	148.7	128.7	142.0	155.8	170.7	182.3	185.1	60.0	64.8	140.7	173.5	196.7
Percent Change - Year Ago	140.9	208.8	125.4	50.3	8.5	14.8	41.6	30.4	-31.2	8.1	117.1	23.3	13.4
Mortgage Debt Outstanding ($ billions)	1,683	1,724	1,749	1,774	1,806	1,847	1,895	1,945	1,544	1,628	1,732	1,873	2,072
Homeowners' Equity ($ billions)	2,477	2,544	2,640	2,737	2,832	2,917	2,992	3,058	2,343	2,393	2,599	2,950	3,234
Housing Inventory (millions)	91.2	91.6	92.0	92.4	92.7	93.1	93.5	93.8	89.7	90.6	91.8	93.3	94.7
Private Housing Starts (thousands)	1,694	1,688	1,703	1,604	1,580	1,566	1,553	1,540	1,100	1,059	1,672	1,560	1,561
Single-Family	1,079	1,110	1,138	1,063	1,035	1,024	1,019	1,021	713	663	1,098	1,025	1,051
Multi-Family	615	578	565	541	545	542	534	519	386	395	575	535	510
Mobile Home Shipments (thousands)	281	299	311	314	322	331	335	335	240	239	301	331	334
Rental Vacancy Rate (%)	5.7	5.5	5.4	5.3	5.3	5.3	5.3	5.3	5.0	5.3	5.5	5.3	5.4
Unsold New Homes (% of sales)	40.9	40.5	43.4	44.3	44.5	45.0	45.6	46.7	75.4	65.2	42.3	45.5	49.8
Office Vacancy Rate (%)<1>	10.8	11.7	11.8	11.9	11.6	11.2	10.6	10.0	4.3	8.0	11.6	10.8	10.0
Industrial Vacancy Rate (%)<1>	4.8	4.9	5.0	5.2	5.1	4.9	4.7	4.6	3.7	4.4	5.0	4.8	4.5
New Commercial Building Construction (% Ch Value)	-5.6	-26.0	6.4	22.5	15.5	12.6	14.6	12.8	14.2	9.0	-5.0	11.6	14.7
New Industrial Building Construction (% Ch Value)	-38.5	-31.1	-6.2	3.3	10.6	21.0	20.9	17.5	22.0	2.5	-22.1	7.2	13.0
FINANCIAL MARKETS													
Personal Savings Rate (%)	5.4	4.0	5.4	5.5	5.5	5.3	5.3	5.4	6.6	5.8	5.1	5.4	5.8
Money Supply (M1) (% change)	14.8	12.8	7.2	5.6	6.0	6.2	4.2	4.9	7.1	6.5	10.8	6.2	5.1
Money Supply (M2) (% change)	21.9	10.6	11.5	8.5	9.3	10.5	8.7	9.1	9.5	9.4	13.0	9.6	7.9
Total Time and Savings Deposits (% change)	-11.8	-1.1	6.3	10.9	11.1	11.0	11.8	11.4	8.8	7.0	0.0	9.8	10.6
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	13.6	13.0	13.7	13.9	14.2	14.1	13.9	13.8	16.7	16.6	13.6	14.0	14.3
Real Mortgage Rate	8.1	9.6	7.8	6.8	7.9	8.7	8.9	8.8	8.0	12.2	8.1	8.6	8.1
Assumption Rate	10.1	10.0	9.9	9.8	10.1	10.2	10.4	10.5	11.0	10.8	10.0	10.3	10.8
Seller Take Back Mortgage Rate	10.9	10.6	11.1	11.2	11.3	11.3	11.2	11.2	11.8	11.8	10.9	11.3	11.6
Blended Rate	12.5	12.2	12.7	12.9	13.1	13.1	13.0	13.0	14.1	14.3	12.6	13.0	13.3
Corporate Bond Rate (AAA)	11.8	11.6	12.0	12.3	12.4	12.4	12.3	12.2	14.2	13.8	11.9	12.3	12.7
Government Bond Rate	10.0	10.1	11.4	11.6	11.3	11.0	10.9	10.9	14.3	13.0	10.8	11.0	11.3
Real Long-term Government Bond Rate	4.5	6.6	5.5	4.6	5.0	5.6	5.9	5.9	5.6	8.6	5.3	5.6	5.1
Federal Funds Rate	8.7	8.8	9.6	10.0	9.7	9.5	9.6	9.8	16.4	12.3	9.3	9.7	10.2
3 Month Treasury Bills	8.1	8.4	9.4	9.8	9.4	9.2	9.1	9.3	14.0	10.6	8.9	9.3	9.8
1 Year Treasury Bills	8.9	9.2	10.6	11.0	10.7	10.4	10.4	10.5	14.8	12.3	9.9	10.5	11.0
Commercial Paper Rate	8.3	8.6	9.5	10.0	9.5	9.3	9.2	9.4	15.3	11.9	9.1	9.4	10.0
Rate on Money Market Fund Shares	8.5	8.7	9.7	10.1	9.7	9.4	9.4	9.6	15.7	12.1	9.2	9.5	10.1
Prime Rate	10.9	10.5	10.9	11.5	11.4	11.0	10.9	11.0	18.9	14.9	10.9	11.1	11.6

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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The recovery is slowing and should continue to slow during the months ahead. In its "flash estimate", the Department of Commerce predicts an annualized growth rate of 7.0 percent for real or inflation-adjusted Gross National Product (GNP) during the third quarter, down from 9.7 percent during the second quarter. Real growth should be less than 5 percent during the fourth quarter, less than 4 percent through 1984, and less than 3 percent during 1985.

The primary cause of this slower growth is higher real interest rates, interest rates above the inflation rate, which are causing slower growth in investments such as automobiles, housing, commercial and industrial structures and other long-lived investments. Annualized growth of consumer spending on durables declined from 33 percent during the second quarter to 5 percent during the third quarter. Growth in residential investment fell from 79 percent in the second quarter to 38 percent in the third. Growth in consumer spending on durables should recover somewhat during the fourth quarter due to the introduction of 1984 car models but then remain below 10 percent during the next two years. Growth in residential investment is expected to continue to decline and should actually turn negative during a few quarters of 1984.

A few sectors of the economy did show some improvement during the third quarter. Investment in nonresidential structures and exports turned around and both should experience accelerating growth through 1985. A $29 billion improvement in inventories occured as businesses have finally started to accumulate stocks of finished products and raw materials because of increases in retail sales.

Total employment rose by 1.7 million during the third quarter, but promises to grow by one million or less new jobs during any quarter of 1984 or 1985. The unemployment rate dropped 0.6 percentage points during the third quarter, but is likely to decline more slowly and will be above 8 percent by the November election.

Low levels of inflation are over for this recovery. Inflation can be expected to accelerate from 3.4 percent for all of 1983 to 6 to 6-1/2 percent during 1984 and 6-1/2 to 7 percent during 1985. Investors in long-term debt instruments expect even higher rates of 7 percent to 10 percent in subsequent years. (Real interest rates on U.S. government bonds averaged less than 2 percentage points for the 30 years prior to 1980 and are now about 7 percent, so that over the long term inflation is expected to be 7 to 10 percent.)

Interest rates peaked in mid-August and have drifted down modestly since then. Rates should rise slightly during the last three months of this year due to heavy borrowing by the Treasury. During 1984 short-term rates are expected to trend down somewhat due to a slight easing of monetary policy. However, long-term rates should stay at current levels or a little higher due to massive Treasury borrowing and accelerating inflation.

Real Estate Markets

Sales of existing single-family homes slipped 2.9 percent in August to a seasonally adjusted annual rate of 2,710,000 units, the second consecutive monthly decline. Surprisingly, housing starts rose 8.4 percent in August to a seasonally adjusted annual rate of 1,935,000 units. However, all evidence suggests that starts will decline in coming months. For 1983 as a whole sales of existing single-family homes should reach 2.8 million units, up 40 percent from the 1982 level. With mortgage rates remaining in the 13 to 14 percent range for the next several years, resales may have peaked and may decline to 2.65 million units in 1984 and 2.5 million units in 1985. Similarly, 1.7 million housing units should be started in 1983, 60 percent above the 1982 total. Starts should then decline to 1.65 million units in 1984 and 1.6 million units in 1985.

For all of 1983, sales prices of existing homes should increase a modest 3.8 percent while prices of new homes should rise 8.8 percent. In 1984 the median price of resales should increase 5 percent while the price of new homes should increase 8.2 percent.

Commercial construction rebounded during the third quarter and should experience moderate growth at least through 1985. Industrial construction should recover during the last three months of 1983. Growth in industrial construction should be modest in 1983 but then improve substantially during 1985.

Table 1

U.S. ECONOMIC OUTLOOK

OCTOBER 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1981	1982	1983	1984	1985
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,172	3,272	3,364	3,458	3,551	3,642	3,731	3,816	2,954	3,073	3,317	3,685	4,018
Percent Change	8.2	13.3	11.8	11.7	11.1	10.7	10.0	9.5	12.2	4.0	7.9	11.1	9.0
Percent Change (without inflation)	2.6	9.7	7.0	5.0	4.5	4.4	3.9	3.1	2.6	-1.9	3.3	5.0	2.6
Consumption	2.9	10.0	2.8	5.2	3.8	3.8	3.0	2.3	2.7	1.4	4.2	4.1	2.3
Durables	7.6	32.6	4.9	15.0	8.1	7.8	5.5	2.1	2.7	-0.9	11.7	9.5	2.3
Nondurables	3.2	6.4	2.6	2.5	2.5	2.6	2.0	1.7	1.9	0.5	3.0	2.7	1.9
Services	1.4	6.4	2.3	4.3	3.5	3.3	2.9	2.8	3.3	2.9	3.0	3.5	2.6
Residential Investment	57.7	78.6	38.1	5.7	-10.4	-1.8	5.3	8.5	-5.2	-15.3	40.8	6.5	1.1
Nonresidential Investment	-1.5	8.0	7.1	7.7	8.0	7.6	7.3	7.4	5.2	-4.7	-1.0	7.6	7.0
Structures	-13.9	-14.9	3.2	4.6	4.6	4.8	6.0	6.2	7.5	1.8	-7.9	3.4	5.9
Equipment	5.0	19.8	8.7	9.1	9.4	8.8	7.9	7.8	4.2	-7.5	2.2	9.4	7.4
Exports	2.4	-3.2	4.3	6.0	3.4	3.6	3.9	5.0	0.4	-7.8	-6.5	3.8	4.7
Imports	12.1	26.6	11.8	8.4	7.3	6.5	6.0	5.7	7.3	1.4	5.2	8.7	5.3
Government Purchases	-8.8	-1.1	3.4	-1.8	12.7	4.2	2.6	1.6	0.8	1.8	0.5	4.3	2.3
Consumption (% of GNP)	66.2	66.3	65.6	65.6	65.5	65.4	65.3	65.2	63.2	65.3	65.9	65.3	65.2
Residential Investment (% of GNP)	3.1	3.4	3.7	3.7	3.5	3.5	3.5	3.5	2.9	2.5	3.5	3.5	3.5
Nonresidential Investment (% of GNP)	10.7	10.7	10.7	10.8	10.8	10.9	11.0	11.1	11.5	11.2	10.7	11.0	11.4
Inventory Change ($ billions)	-39.4	-14.5	14.5	23.7	19.7	26.0	32.8	35.4	18.4	-24.6	-3.9	28.5	25.5
Mfg. Capacity Utilization Rate (%)	71	74	77	78	79	80	81	82	79	71	75	80	83
Auto Sales (millions of units)	8.4	9.2	9.4	10.0	10.3	10.6	10.7	10.7	8.5	8.0	9.3	10.6	10.6
Manufacturing Industrial Production (% change)	12.2	21.0	18.0	7.5	5.7	3.6	5.1	4.4	2.4	-8.5	7.1	7.8	4.0
Common Market	9.1	-1.8	-2.1	4.0	3.5	2.2	1.3	1.2	-1.5	-1.8	-0.2	1.9	2.1
Japan	3.9	6.6	8.1	6.4	8.7	4.0	2.2	3.5	1.0	0.4	2.6	6.0	4.9
Employment (millions)	99.1	99.9	101.6	102.6	103.6	104.5	105.2	105.9	100.4	99.5	100.8	104.8	107.1
Unemployment Rate (%)	10.4	10.1	9.5	9.0	8.7	8.4	8.3	8.2	7.6	9.7	9.7	8.4	8.3
Disposable Income per Household (average)	28,033	28,526	29,473	30,241	30,994	31,596	32,179	32,776	25,837	27,206	29,068	31,887	34,446
Percent Change -- Year Ago (w/o inflation)	0.8	1.2	3.6	4.4	4.9	4.8	3.2	2.4	2.2	-0.4	2.5	3.8	1.9
Total Taxes per Household (average)	13,483	14,025	13,925	14,359	14,799	15,088	15,440	15,746	13,187	13,205	13,948	15,268	16,394
Percent Change -- Year Ago	2.8	5.8	5.4	8.4	9.8	7.6	10.9	9.7	11.7	0.1	5.6	9.5	7.4
Percent of Disposable Income	48.1	49.2	47.2	47.5	47.7	47.8	48.0	48.0	51.1	48.5	48.0	47.9	47.6
Household Debt as Percent of Disposable Income	78.6	79.1	78.8	78.8	78.8	79.0	79.3	79.7	78.3	78.1	78.8	79.2	80.3
Consumer Price Inflation (CPI)	-0.4	4.2	5.2	6.3	7.1	6.6	6.4	6.5	10.3	6.2	3.4	6.3	6.8
Gross National Product Inflation (GNP Deflator)	5.5	3.3	4.4	6.4	6.4	6.0	5.9	6.3	9.4	6.0	4.5	5.8	6.3
Personal Consumption Inflation	2.1	4.6	5.0	5.7	6.1	5.7	5.7	5.8	8.4	5.8	4.2	5.7	6.0
Residential Construction Inflation	11.3	-2.2	3.2	6.1	7.3	7.8	8.2	8.5	7.0	2.8	2.1	6.3	8.5
Nonresidential Construction Inflation	-2.1	-0.5	3.9	5.9	6.9	7.1	7.7	7.9	11.6	4.7	0.1	6.1	8.1
Producers Price Inflation (WPI)	-1.3	1.0	5.5	7.6	7.4	7.2	7.2	7.3	9.1	2.0	1.7	6.7	7.8
Compensation per Manhour (% change)	7.0	4.3	6.3	8.4	8.6	7.2	7.6	7.9	9.7	7.9	6.2	7.6	8.0
Productivity (% change)	3.6	6.0	3.6	2.3	2.5	2.3	2.1	2.0	1.9	0.0	3.1	2.7	1.9
Unit Labor Cost (% change)	3.1	-1.8	2.8	6.0	6.0	4.9	5.3	5.8	7.7	7.9	2.9	4.8	6.0
Unit Capital Cost (% change)	8.4	7.5	6.6	5.9	5.4	5.1	4.9	4.8	10.7	9.8	7.1	5.1	4.7
Before Tax Corporate Profits ($ billions)<1>	182	213	230	241	254	263	273	282	251	190	216	268	299
Corporate Tax Liability	62	76	79	84	89	90	94	98	83	59	75	93	100
'Windfall Profits' Tax Receipts	12	10	11	11	11	12	11	11	24	16	11	11	14
After Tax Profits	108	127	140	146	154	162	167	172	144	115	130	164	185
Inventory Valuation Adjustment	-2	-11	-12	-22	-24	-25	-25	-27	-24	-8	-11	-25	-32
Capital Consumption Adjustment	14	26	33	37	40	43	46	47	-11	-1	27	44	51
Profits from Current Production (with IVA, CCA)	120	142	161	161	170	180	187	192	110	106	146	182	204
Adjusted for Inflation (82:1 base)	115	135	151	149	154	161	165	167	114	104	137	162	170
Percent Change - Year Ago	13.0	29.6	43.3	42.4	34.2	19.6	9.5	12.5	10.3	-8.9	32.2	18.0	5.2
Per Unit of Output (% of GNP)	3.8	4.3	4.8	4.7	4.8	4.9	5.0	5.0	3.7	3.4	4.4	4.9	5.1
Effective Corporate Tax Rate (%)<1>	34	35	33	35	35	34	34	34	43	37	34	34	33
Federal Tax Receipts (Unified basis)	559	666	608	595	614	787	696	656	620	609	607	688	750
Federal Expenditures (Unified basis)	803	783	777	841	883	894	853	926	698	740	801	889	975
Surplus or Deficit (Unified basis)	-244	-117	-169	-246	-269	-108	-157	-270	-78	-131	-194	-201	-225
% of GNP	7.7	3.6	5.0	7.1	7.6	3.0	4.2	7.1	3.7	4.2	5.8	5.5	5.6
% of Personal Savings	200.3	127.6	129.7	178.3	181.6	73.1	106.2	176.2	83.0	106.1	159.0	134.2	129.2
% of Total Private Savings	45.0	21.8	28.4	40.6	42.7	16.7	23.9	40.0	21.7	25.0	34.0	30.8	30.8

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

Table 2

REAL ESTATE AND FINANCIAL MARKETS

OCTOBER 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:1	83:2	83:3	83:4	84:1	84:2	84:3	84:4	1981	1982	1983	1984	1985
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,583	2,853	2,740	2,692	2,663	2,642	2,620	2,596	2.419	1,990	2,717	2,630	2,528
Percent Change - Year Ago	31.1	46.1	44.7	26.2	3.1	-7.4	-4.4	-3.6	-18.6	-17.7	36.5	-3.2	-3.9
Dollar Volume (billions)	207.9	236.3	230.8	221.6	221.4	223.7	228.0	220.9	189.4	160.2	224.2	223.5	225.3
Existing Home Prices - Median ($1000's)	68.4	69.8	71.9	70.7	71.8	73.4	75.7	74.2	66.4	67.8	70.3	73.8	78.0
Percent Change - Year Ago	2.4	2.5	5.0	5.0	5.0	5.2	5.3	4.9	6.8	2.1	3.7	5.0	5.8
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	631	625	669	660	679	684	697	682	742	754	646	685	735
Percent of Household Income	23	22	23	22	23	22	22	21	29	28	23	22	22
New Single-Family Home Sales (thousands)	605	653	609	600	588	576	568	551	437	417	617	571	532
Percent Change - Year Ago	60.3	78.7	49.1	15.7	-2.8	-11.8	-6.7	-8.1	-19.9	-4.4	47.7	-7.4	-6.8
New Home Prices - Median ($1000's)	73.3	75.1	75.9	77.2	78.8	80.6	82.4	84.4	68.8	69.3	75.4	81.6	89.4
Percent Change - Year Ago	10.4	7.9	9.1	7.8	7.6	7.3	8.6	9.3	6.4	0.7	8.8	8.2	9.7
New Home Prices--Mean ($1000's, Quality Adjusted)	89.0	88.7	89.7	90.9	93.3	93.6	94.5	95.8	85.5	87.8	89.6	94.3	100.8
Percent Change - Year Ago	0.8	-0.1	2.4	5.9	4.8	5.5	5.3	5.4	8.8	2.8	2.1	5.3	6.8
New Mortgage Commitments ($ billions)	143.6	148.7	132.4	141.6	156.6	171.8	181.1	184.9	60.0	64.8	141.6	173.6	204.1
Percent Change - Year Ago	140.9	208.8	132.0	49.9	9.1	15.5	36.7	30.6	-31.2	8.1	118.4	22.6	17.6
Mortgage Debt Outstanding ($ billions)	1,683	1,724	1,749	1,774	1,808	1,850	1,899	1,949	1,544	1,628	1,732	1,876	2,085
Homeowners' Equity ($ billions)	2,480	2,538	2,610	2,672	2,731	2,788	2,857	2,933	2,345	2,396	2,575	2,827	3,138
Housing Inventory (millions)	91.2	91.6	92.0	92.4	92.8	93.1	93.5	93.9	89.7	90.6	91.8	93.3	94.9
Private Housing Starts (thousands)	1,694	1,683	1,781	1 660	1,573	1,628	1,696	1,714	1,100	1,059	1,705	1,653	1,604
Single-Family	1,079	1,104	1,049	1,032	999	1,039	1,096	1,120	713	663	1,066	1,064	1,063
Multi-Family	615	579	732	629	574	589	600	594	386	395	639	589	541
Mobile Home Shipments (thousands)	281	299	305	313	321	341	357	360	240	239	300	345	358
Rental Vacancy Rate (%)	5.7	5.5	5.4	5.3	5.3	5.3	5.3	5.3	5.0	5.3	5.5	5.3	5.4
Unsold New Homes (% of sales)	40.9	40.0	46.5	46.6	46.5	46.9	47.5	48.3	75.4	65.2	43.5	47.3	50.6
Office Vacancy Rate (%)<1>	10.8	11.7	11.8	11.9	11.6	11.2	10.6	10.0	4.3	8.0	11.6	10.8	10.0
Industrial Vacancy Rate (%)<1>	4.8	4.9	5.0	5.2	5.1	4.9	4.7	4.6	3.7	4.4	5.0	4.8	4.5
New Commercial Building Construction (% Ch Value)	-5.2	-24.5	25.6	14.2	17.0	13.0	17.8	16.9	14.2	9.0	-3.0	13.7	15.3
New Industrial Building Construction (% Ch Value)	-38.7	-34.8	-17.0	4.8	4.1	10.3	11.3	16.3	22.0	2.5	-24.0	0.9	17.9
FINANCIAL MARKETS													
Personal Savings Rate (%)	5.4	4.0	5.5	5.6	5.9	5.7	5.6	5.7	6.6	5.8	5.1	5.7	6.1
Money Supply (M1) (% change)	14.8	12.8	10.3	6.4	6.6	8.3	6.2	5.2	7.1	6.5	11.3	7.6	6.2
Money Supply (M2) (% change)	21.9	10.5	10.5	8.0	9.1	11.2	8.9	9.2	9.5	9.4	12.8	9.5	8.8
Total Time and Savings Deposits (% change)	-11.8	-1.1	8.7	11.1	11.4	11.3	11.6	11.5	8.8	7.0	0.4	10.2	11.2
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	13.6	13.1	13.7	13.8	14.0	13.8	13.6	13.5	16.7	16.6	13.5	13.7	13.9
Real Mortgage Rate	8.1	9.8	9.4	7.4	7.6	7.8	7.7	7.3	8.0	12.2	8.7	7.6	7.4
Assumption Rate	10.1	10.0	9.9	9.8	10.1	10.2	10.4	10.5	11.0	10.8	10.0	10.3	10.8
Seller Take Back Mortgage Rate	10.9	10.6	11.1	11.0	11.3	11.3	11.2	11.2	11.8	11.8	10.9	11.3	11.6
Blended Rate	12.5	12.3	12.7	12.8	13.0	12.9	12.8	12.8	14.1	14.3	12.6	12.9	13.1
Corporate Bond Rate (AAA)	11.8	11.6	12.2	12.4	12.3	12.2	12.0	11.9	14.2	13.8	12.0	12.1	12.3
Government Bond Rate	10.0	10.1	11.4	11 5	11.2	10.8	10.7	10.8	14.3	13.0	10.7	10.9	11.0
Real Long-term Government Bond Rate	4.5	6.8	7.0	5.1	4.8	4.8	4.9	4.5	5.6	8.6	5.9	4.7	4.5
Federal Funds Rate	8.7	8.8	9.7	9.9	9.4	9.3	9.6	9.8	16.4	12.3	9.3	9.5	9.7
3 Month Treasury Bills	8.1	8.4	9.4	9.5	9.1	8.9	9.1	9.2	14.0	10.6	8.8	9.1	9.2
1 Year Treasury Bills	8.9	9.2	10.6	10.8	10.2	9.9	10.0	10.1	14.8	12.3	9.8	10.1	10.2
Commercial Paper Rate	8.3	8.6	9.6	9.7	9.1	9.0	9.2	9.3	15.3	11.9	9.1	9.2	9.3
Rate on Money Market Fund Shares	8.5	8.7	9.7	9.9	9.2	9.1	9.4	9.6	15.7	12.1	9.2	9.3	9.5
Prime Rate	10.9	10.5	10.9	11.3	11.2	11.0	10.8	10.9	18.9	14.9	10.9	11.0	11.2

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.